AUDITOR GENERAL
*Alberta*

# Report of the Auditor General of Alberta

April 2011

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AUDITOR GENERAL
*Alberta*

Mr. Len Mitzel, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—April 2011* to Members of the Legislative Assembly, as required by section 20(1) of the *Auditor General Act*.

Merwan N. Saher

Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
April 4, 2011

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AUDITOR GENERAL
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# Introduction

Report of the Auditor General of Alberta—April 2011

# Message from the Auditor General

## Report highlights

This first report in 2011 makes public our continued emphasis on following up implementation of prior recommendations. Up to and including our *October 2010 Report*, our assessments of management control systems, as part of our financial statement audits, and our stand-alone systems audits resulted in 308 outstanding recommendations. That number is now 280, not including the 11 new recommendations in this report. Verifying that recommendations have been successfully implemented is important because the benefit of our work can only be demonstrated when we can confirm implementation to Members of the Legislative Assembly. We will continue to work through outstanding recommendations in the coming months—applying the same rigor that we apply to all our audit work—to ensure that positive change in government operations continues.

**Credit Union Deposit Guarantee Corporation**—A new systems audit (page 15) found that the Corporation has effective oversight systems to identify, monitor and respond to risks within Alberta's credit unions. This is good news and especially so in uncertain financial times. Alberta has 46 credit unions that hold $16 billion in deposits, which are guaranteed by the Corporation. We make no recommendations for improvement.

**Alberta Treasury Branches**—In a follow-up of a 2008 systems audit (page 41), we assessed ATB's progress implementing 12 of 15 recommendations. ATB has made good progress, having implemented six of the original recommendations. We were not satisfied with ATB's progress with interest rate risk modeling, so we have repeated our recommendation to do with the assumptions used in the models (Recommendation no. 1—page 48).

**Natural Resources Conservation Board**—In a follow-up of a 2004 systems audit, we assessed the Board's progress in monitoring confined feeding operations. We are now satisfied with systems that deal with risks to groundwater. We are not yet satisfied that the Board's approach to surface water risks is adequate, so have made a specific recommendation on this matter (Recommendation no. 2—page 59).

**Energy**—Albertans need to know that royalties calculated under the existing royalty regime are based on complete and accurate data. Our follow-up audits of the systems that provide assurance over collecting and recording industry data in the Department of Energy and the Energy Resources Conservation Board are now completed and we report that previous recommendations have been implemented (page 23 and page 27).

A systems audit in 2007 examined the Department's systems for royalty review and we made five recommendations on how royalty regimes are described, reviewed, measured and publicly reported. In our follow-up audit, we have concluded that all recommendations have been implemented, with one exception. The Department has improved performance measures for conventional oil and natural gas royalties but has not yet developed performance measures for the oil sands royalty regime (page 31).

**Advanced Education and Technology**—Starting on page 65, we present the results of new audits and follow-up work at Alberta's universities, colleges and technical institutes. We report under three broad themes: improve periodic and year-end financial reporting; improve internal control systems; and preserve endowment assets. We also provide a progress report on the Department's actions for improving enterprise risk management systems in the sector.

We have made 14 recommendations, of which four are repeated because of limited progress toward implementation. The repeated recommendation (no. 3—page 75) to Grant MacEwan University is because the University is unable to demonstrate that it is managing the risks that arise from starting projects without the protection that contracts provide.

## Acknowledgement and thanks

Members of the Legislative Assembly, in particular members of the Standing Committee on Public Accounts, help us to identify issues that are important to legislators. I also thank the members of the Provincial Audit Committee for their advice. Their expertise in financial, business and governance matters is appreciated. Management and staff of the organizations we audit continue to cooperate fully and professionally to enable us to do our work.

Our vision is to add value through expert auditing. I thank every member of the Office. Their teamwork made this report possible.

Merwan N. Saher

Merwan N. Saher, CA
Auditor General

April 4, 2011

# Recommendation Highlights

This report contains 11 new recommendations and five repeated recommendations, all listed starting at page 11. The five repeated recommendations were made because in our judgement, taking into account the complexity of the matter and the action planned by management, progress was insufficient. We have numbered three of the 16 recommendations that need a formal response from the government.

## Prioritizing our recommendations

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring our recommendations to the attention of Members of the Legislative Assembly (MLAs). For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

To help MLAs, we prioritize recommendations in our public reports to indicate where we believe they should focus their attention. We categorize them as follows:

- **Numbered recommendations**—These recommendations require a formal public response from the government. By implementing these recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed. The most significant numbered recommendations are also categorized as "key."
- **Unnumbered recommendations**—These recommendations are important but do not require a formal public response from government. The recipient of the recommendation has responded to us during the audit process.

## Reporting the status of recommendations

We follow up all recommendations and report their status in our public reports. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation, and assist with the timing of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work. We repeat a recommendation if we find that the implementation progress has been too slow.

We report the status of our recommendations as:

- **Changed circumstances**—If the recommendation is no longer valid, we explain why and remove the recommendation from our outstanding recommendation list.
- **Implemented**—We explain how the government implemented the recommendation.
- **Satisfactory progress**—We may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

## Outstanding recommendations

We have a chapter called Outstanding Recommendations—see page 87. It provides a complete list of the recommendations that are not yet implemented. Although management may consider some of these recommendations to have been implemented, we do not remove recommendations from this list until we have completed follow-up audit work to confirm implementation.

# April 2011 Recommendations

Green print—Numbered recommendation

Black print—Unnumbered recommendation

## Systems Audits—Follow-up

### Finance and Enterprise—Alberta Treasury Branches—Treasury Management

Page 48 **Alberta Treasury Branches—Interest rate risk model assumptions—Recommendation No. 1—Repeated**

We again recommend that Alberta Treasury Branches improve processes for creating, applying and validating assumptions used in its interest rate risk models.

### Sustainable Resource Development—Natural Resources Conservation Board—Confined Feeding Operations

Page 59 **Natural Resources Conservation Board—Surface water risks—Recommendation No. 2**

We recommend that the Natural Resources Conservation Board demonstrate that its compliance approach is adequate in proactively managing surface water risks.

## Financial Statement Audits and Other Assurance Work

### Advanced Education and Technology

Page 68 **Portage College—Improve periodic financial reporting—Recommendation—Repeated**

We again recommend that Portage College improve financial reporting to its board and senior management by providing—at least quarterly—complete statements of financial position and actual year-to-date operating results.

Page 68 **Olds College—Improve periodic financial reporting—Recommendation**

We recommend that Olds College improve its processes and controls over year-end financial reporting.

Page 71 **Alberta College of Art and Design—Professional development fund—Recommendation**

We recommend that Alberta College of Art and Design establish policies and guidelines for the management of its professional development fund.

Page 72 **Alberta College of Art and Design—Code of conduct, conflict of interest and fraud policies—Recommendation**

We recommend that Alberta College of Art and Design:

- develop, implement and enforce policies for code of conduct and conflict of interest
- develop and implement a fraud policy that clearly defines actions, responsibilities, authority levels and reporting lines in case of fraud allegations

Page 73 **Alberta College of Art and Design—Controls over extended studies program—Recommendation**

We recommend that Alberta College of Art and Design improve its processes for the set-up and approval of fees and courses delivered under the extended studies program.

Page 73 **Alberta College of Art and Design—Controls over vendor master file set-up and maintenance—Recommendation**

We recommend that Alberta College of Art and Design improve its controls over the set-up, maintenance and monitoring of its vendor master list.

Page 75 **Grant MacEwan University—Ensure contracts are signed before work begins—Recommendation No. 3—Repeated**

We again recommend that Grant MacEwan University have signed contracts (interim or final) in place before projects start.

## April 2011 Recommendations

Page 77 **Keyano College—Access controls to key financial systems—Recommendation**
We recommend that Keyano College improve access control policies and processes for its information systems to ensure that:

- user access to networks and application systems is disabled when employees leave their employment
- user access to computer networks and systems is properly authorized and all staff and contractors comply with the computer use policy

Page 78 **Keyano College—Monitor access to key financial systems—Recommendation**
We recommend that Keyano College develop a policy and processes for monitoring and investigating breaches of security to its information systems.

Page 79 **Lakeland College—Improve controls for staff to formally acknowledge code of conduct—Recommendation**
We recommend that Lakeland College enhance its code of conduct processes and require all employees to reconfirm compliance with the code of conduct regularly.

Page 79 **Lakeland College—Payroll controls—Recommendation—Repeated**
We again recommend that Lakeland College adequately segregate access to the PeopleSoft payroll system. We also recommend that management review change reports generated from the payroll system for appropriateness.

Page 80 **Medicine Hat College—Controls over cash and accounts receivable—Recommendation**
We recommend that Medicine Hat College improve controls over cash, accounts receivable and accounts receivable write-offs related to tuition by:

- adequately segregating incompatible functions of preparing daily cash receipts, processing accounts receivable and writing off accounts receivable
- requiring registration clerks to use cash count sheets for controlling cash handling and reconciling cash handovers to the student accounts clerk

Page 81 **Olds College—Improve internal controls—Recommendation—Repeated**
We again recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

Page 82 **Portage College—Improve controls over bookstore inventory—Recommendation**
We recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

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# Systems Audits—New

Report of the Auditor General of Alberta—April 2011

# Oversight of Credit Unions

## Summary

### What we examined

Our audit objective was to assess whether the Credit Union Deposit Guarantee Corporation has effective oversight systems to identify, monitor and respond to risks within Alberta's credit unions that could have an adverse impact on the deposit guarantee fund. This audit covered activities at the Corporation between January 2008 and October 2010.

### Why this is important to Albertans

The primary purpose of the Corporation is to guarantee the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act*[1] provides that the province of Alberta will ensure that this obligation of the Corporation is carried out.[2] The government's guarantee is a significant financial risk if these entities are not operated in a safe and sound manner. Albertans need to know that Alberta's credit unions are in sound financial condition, are complying with legislative and supervisory requirements, and are managing risks. The Corporation monitors the safety and soundness of credit unions and protects depositors by intervening if credit unions are taking unnecessary risks with members' deposits.

### What we found

The Corporation has effective oversight systems to identify, monitor and respond to risks within Alberta's credit unions. We make no recommendations for improvement.

## Audit objective and scope

Our audit objective was to assess whether the Corporation has adequate and effective oversight processes to identify, monitor and respond to risks within Alberta's credit unions that could have an adverse impact on the deposit guarantee fund.

We examined the Corporation's:

- business plan, operational plans and *Standards of Sound Business and Financial Practices*
- relevant legislation, regulatory framework and monitoring approach
- risk assessment processes
- off-site monitoring systems
- processes for on-site examinations
- processes for following up on risks and issues identified through its monitoring and examination processes
- reporting on results of its work

## Background

### Mandate of the Credit Union Deposit Guarantee Corporation

The *Credit Union Act* sets out the regulatory framework that the credit union system operates within. The Minister of Finance and Enterprise is responsible for the *Act*. Alberta's credit union system includes 46 credit unions,[3] the Corporation and Credit Union Central–Alberta Ltd. The Corporation administers significant aspects of the *Act* on behalf of the Minister. The Corporation's mandate and roles describes the roles and responsibilities of the Corporation and the Minister.

The Corporation's role[4] is to:

- provide a 100% guarantee of deposits held with Alberta credit unions
- regulate credit unions and enforce the *Credit Union Act*
- review, advise and direct on credit union sound business practices
- monitor credit union performance and implement appropriate actions to improve performance and reduce risks
- establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits

1 RSA 2000, c.C-32
2 *Credit Union Act,* Section 152(9)
3 See Table 1: Summary of credit unions, page 16
4 *Credit Union Deposit Guarantee Corporation—2009 Annual Report,* page 3

## Oversight of Credit Unions

Under the *Act*, the Corporation guarantees the repayment of all deposit principal and interest by Alberta credit unions. Credit unions pay the Corporation an annual deposit guarantee assessment. The Government of Alberta ensures the Corporation meets its obligations,[5] for the deposit guarantee.

The Corporation's regulatory and oversight objectives are to minimize the risk of claims against the deposit guarantee fund and the Government of Alberta.

The Corporation maintains the deposit guarantee fund, which held $135 million in assets at December 1, 2009, or 0.85% of total credit union deposits of $16 billion. If any guarantee of deposits beyond the fund's $135 million was required, the Government of Alberta is obliged to ensure that the Corporation meets its obligation for the deposit guarantee.

### Credit union system

The Corporation reports the total assets and deposits for all credit unions, and for the five largest credit unions in the province as follows:

| Summary of credit unions ($ in billions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Number of credit unions | 46 | 48 | 48 |
| Total assets | $17.5 | $16.5 | $14.8 |
| Total deposits | $16.0 | $15.1 | $13.2 |

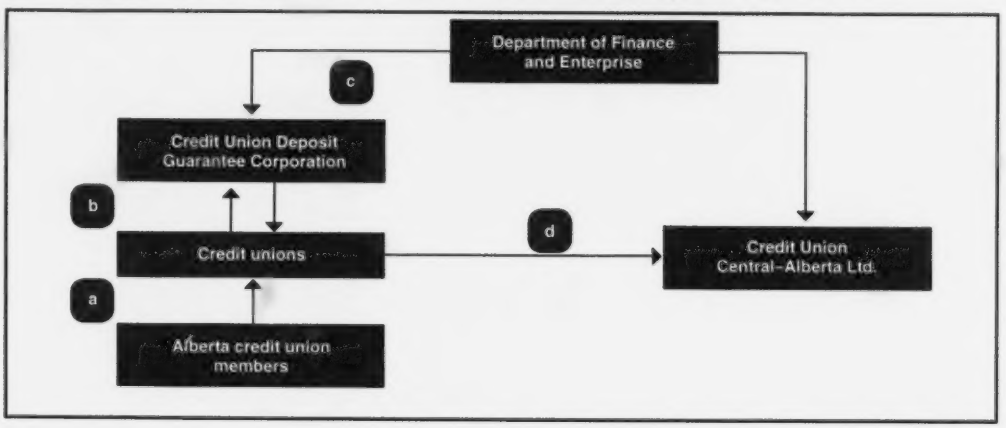
Table 1: Summary of credit unions (unaudited information provided by the Corporation)

| Summary of the five largest credit unions in Alberta—October 2009 ($ in billions) | | |
|---|---|---|
| Credit union | Total Assets | Total Deposits |
| Servus Credit Union | $10.2 | $9.4 |
| First Calgary Financial | $2.3 | $2.2 |
| Chinook Credit Union | $0.6 | $0.5 |
| Mountain View Credit Union | $0.5 | $0.5 |
| Battle River Credit Union | $0.5 | $0.4 |

Table 2: Summary of largest credit unions (unaudited information provided by the Corporation)

### Overview of the Credit Union System

In addition to credit unions, there are other entities involved in the credit union system. The following diagram provides an overview of these entities and the relationships between them:




5 *Credit Union Act*, Section 152(9)

a Alberta credit unions generally provide deposit taking and lending services to credit union members.

b The Corporation provides oversight and a guarantee of deposits of Alberta credit unions. It also provides adjudication for certain lending activities of credit unions. The Corporation charges credit unions a deposit guarantee assessment in exchange for the 100% deposit guarantee. The Corporation is a provincial agency accountable to the Minister.

c The Minister of Finance and Enterprise regulates Alberta credit unions through the *Act* and its regulations. The Minister has a responsibility to ensure the Corporation fulfills its responsibilities under a mandate and roles document. The Deputy Minister of Finance and Enterprise sits on the Corporation's Board of Directors.

d Credit Union Central Alberta Ltd. (CUC–AB) is a corporation owned by Alberta credit unions, and acts as a trade association on behalf of the Alberta credit union system. CUC–AB provides centralized support services to Alberta credit unions, such as cheque processing, electronic payments and customer internet services. CUC–AB also serves as the central banking facility and liquidity provider to credit unions—Alberta credit unions are required to maintain a minimum level of liquidity with CUC–AB.[6]

The Corporation has no regulatory oversight of CUC–AB. The Department of Finance and Enterprise performs this oversight function, a function that we examined as part of our April 2010 audit of the Department's systems to provide oversight of financial institutions. The Corporation and the Department recently signed an information sharing agreement that enables the Corporation to obtain information related to CUC–AB from the Department.

## The Corporation's oversight role

The Corporation's credit and risk management department is primarily responsible for overseeing Alberta's credit unions. The department is organized into three main functions:

- **Risk analytics**—Staff in risk analytics are responsible for on-site examinations, off-site monitoring and updating the risk profiles of the credit union system. On-site examinations consist of credit and operational reviews of procedures and processes at individual credit unions. Off-site monitoring is a review of financial information and information packages provided to credit union boards and board committees.
- **Credit**—Credit staff are responsible for on-site examination support in credit related areas, including reviewing and assessing the effectiveness of the credit function[7] within credit unions. They are also responsible for adjudicating certain loans, setting credit union lending limits, reviewing specific loan transactions and coaching credit unions' lenders.
- **Risk management**—Risk management staff provide assistance and guidance with sound business practices (as set out in the *Corporation's Standards of Sound Business and Financial Practices*). They also provide on-site examination support, regulatory approvals, intervention activities and complete examinations of credit unions with less than $100 million in assets.

## Findings

The Corporation has effective oversight systems to identify, monitor and respond to risks within Alberta's credit unions. The Corporation has effective risk assessment, off-site monitoring and on-site examination systems; good processes

6 *Credit Union Central–Alberta Limited Annual Report*, 2008, page 16: AB Central's by-laws require Alberta credit unions to maintain a minimum of 1% of their assets as share capital with AB Central. Credit unions are also required to maintain liquidity deposits at AB Central such that their total liquidity deposits and share capital held are no less than 9% of the credit union's liabilities.

7 Includes reviews and assessments of the effectiveness of the credit function in credit unions with recommendations for improvement.

## Oversight of Credit Unions

for reporting the results of its work to its board of directors, credit unions and other regulatory organizations; and effective systems for following up on risks and issues identified through its monitoring processes.

The composition of the credit union system is changing, and the Corporation is responding appropriately to these changes. A major risk to the credit union system is concentration risk created by the mergers of three large credit unions into Servus Credit Union. This merger has resulted in the Servus Credit Union holding approximately 60% of total credit union deposits in the province.

The *Act* requires credit unions to maintain a level of capital that protects them against unexpected losses. Quarterly, the Corporation monitors the capital position of each credit union against this regulatory minimum. The Corporation also monitors the overall financial health of the credit union system and reviews individual financial results and activities of credit unions regularly.

Based on these findings, we make no recommendations for improvement.

AUDITOR GENERAL
*Alberta*

# Systems Audits—Follow-up

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# IT Project Management—Follow-up Audit

## Guidance on overseeing information technology projects—implemented

### Background

In our *October 2006 Report* (no. 22, vol. 1—page 174), we recommended the Deputy Minister of (then) Restructuring and Government Efficiency (now the Department of Service Alberta), provide guidance to Deputy Ministers and their Chief Information Officers to promote effective project management practices. In our original audit, we examined three major IT projects and found inconsistent performance in achieving IT project objectives. We recommended that guidance be provided to Deputy Ministers and Chief Information Officers (CIOs) on their responsibilities for overseeing IT projects. We noted that Deputy Ministers and CIOs across government play a key role in monitoring and enforcing compliance with approved project management practices.

### Our audit findings

Key Points

- Project management policy instruments have been developed
- Guidance is consistent with accepted project management criteria
- Assessing implementation of the guidance is beyond the scope of this follow-up and will be done at the department level

The Department initiated a major change in its approach to the coordination of IT development across the Government of Alberta in July 2008, when Cabinet approved the *Government of Alberta Information Management and Technology Strategy*. This *Strategy* presented a plan based on a single-enterprise approach to develop a government-wide framework for information management technology (IMT) planning, governance and funding. A number of policy instruments have been developed to support this strategy, including developments related to the project management component.

The following actions have been taken by the Department, through the Chief Information Officer Council, to provide further guidance on project management over IT projects:

- A project management task force (PMTF), made up of seven members of the CIO Council, was established in November 2008 to "develop a government-wide consistent approach for managing IMT projects and/or IMT enabled projects to increase the likelihood of IMT project success and allow for ministry flexibility while still meeting IMT, ministry and audit requirements".[1] The PMTF finalized the following deliverables in March 2010, and made them available to the Office of the Corporate Chief Information Officer for approval:
  - *IMT Project Management Framework*
  - *IMT Project Management Policy Directive*
  - *IMT Project Management Guidelines* (consisting of 10 separate guideline documents covering key aspects of project management)
- The Department has proceeded with the *IMT Project Management Guidelines*. "Guidelines provide information, advice or explanation to assist in implementation of policy or policy instruments".[2] They are not mandatory, but are tools available for use by departments as they deem appropriate. The content of the *Guidelines* is consistent with accepted project management standards.

By opting for guidelines rather than standards, the Department has reinforced the autonomy of departments to develop the project management practices they feel are most appropriate. As such, assessing the implementation of this guidance across the departments of the Government of Alberta is beyond the scope of this follow-up audit. In future work, we will assess whether departments have implemented the project management guidance and whether this results in IT projects that deliver expected results on time and within budget.

1 *PMTF, Terms of Reference*, November 2009
2 *Information Management and Technology Policy Definition*, January 14, 2009, page 6

# Assurance Over Royalty Data—Follow-up Audit

## Summary

The Department of Energy calculates oil and gas royalties using data provided by the industry. To make sure producers pay all the royalties they owe to the province, the Department must have assurance that producers provide complete and accurate data on their wells and production.

### What we examined

In 2005, we audited systems that the Department relied on to ensure that data used to calculate conventional oil and natural gas royalties are complete and accurate. Based on our examination, we recommended that the Department complete a risk assessment and evaluate the assurance obtained from controls operating at the Department, the Energy Resources Conservation Board (ERCB) and the Petroleum Registry of Alberta (Registry). We also recommended that the Department communicate how much assurance it requires from ERCB over the completeness and accuracy of well and production data.

We last reported on this audit and its underlying recommendation in our *October 2007 Report* (vol. 2—page 64), in which we provided a progress report on the activities the Department had undertaken and what remained outstanding. We highlighted four areas that had to be completed to implement the recommendation:

- complete risk assessments
- identify any significant residual risks
- ensure that sources of assurance are sustainable
- ensure that audit findings can be extrapolated

We completed the 2010 follow-up to assess if the Department has addressed the outstanding items.

### Why it is important to Albertans

Royalties from oil and gas are a considerable portion of the Alberta government's revenue. Thus, effective systems to provide assurance over well and production data reported by industry and used in royalty calculations are critical. Albertans need to know that royalties calculated under the existing royalty regime are based on complete and accurate data.

### What we found

The Department has fully implemented the recommendation. It completed risk assessments, identified residual risks and agreed on a required and sustainable level of assurance with ERCB.

## Audit objectives and scope

Our objective was to determine if the Department has implemented the recommendation originally reported in our *October 2005 Report* (no. 28—page 165). We focused on the Department's actions since our 2007 progress report. Our field work was conducted from April 2010 to November 2010.

## Background

The Department requires accurate and complete data to ensure the appropriate calculation of royalties. Oil and gas producers are required to regularly submit production and well data to the Registry. The Department extracts information from the Registry to perform royalty calculations. The Department obtains assurance over the data reported by producers through its own internal controls, through control activities at ERCB and through controls within the Registry. The Department also expects producers to have the necessary processes to ensure compliance with the measurement and reporting requirements stipulated by the Department and ERCB.

In our *October 2005 Report* (no. 29—page 169), we recommended that ERCB strengthen its controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards. Overall, both recommendations were intended for the Department and ERCB to initiate activities to

support the accuracy of well and production data reporting.

As a means to achieving this objective, the Department and ERCB formed a joint volumetric steering committee in 2006. The primary purpose of this committee is to establish the context, expectations and monitoring required for the assurance provided by the Department and ERCB related to well and production data. As noted in our progress report in 2007, communication between the Department and ERCB improved after the formation of this committee, and the ongoing activities to implement the recommendation have been largely derived from the decisions and actions of this committee.

## Findings

### Assurance on well and production data—implemented

#### Background

In our *October 2005 Report* (no. 28—page 165) we recommended that the Department of Energy:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data
- communicate to the Energy Resources Conservation Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data

In our *October 2006 Report* (no. 27—page 76), we repeated the above recommendation because the Department's progress was slower than expected.

In our *October 2007 Report* (vol. 2—page 64), we included a progress report that outlined actions taken by management.

#### Our audit findings

Key Points

- Risk assessments have been completed and residual risks have been identified
- Systems for assurance over well and production data are more sustainable

The Department has fully implemented the recommendation by completing the outstanding actions identified during the last follow-up. This includes completing risk assessments, identifying residual risks and outlining mitigating action for data types that have a significant impact on royalties. The Department has also agreed on a required and sustainable level of assurance with ERCB.

#### Complete risk assessments

The Department completed a comprehensive risk assessment of the 34 most significant data types used to determine royalties. Data types include items such as depth of a well, production hours and the well identification number. The overall risk rating for each data type was determined based on an evaluation of the potential dollar impact on the royalty calculation and the likelihood of an error occurring before considering the controls in place to mitigate risk. These risk ratings are supported by quantitative and qualitative analysis of the individual data types.

The Department updates the risk assessment as required based on factors such as changes to the relevance of a data type used in the royalty calculation, new data types that may be required in the calculation of royalties, and issues or reporting errors identified for a particular data type.

#### Identify significant residual risks

Using the risk assessments, the Department identified the key controls for each data type. This included controls in place at the Department, ERCB and the Registry. After considering the controls in place to mitigate the risks of reporting errors, the Department identified the remaining, or residual risk, and classified the data types as low, medium or high risk. For those data types considered medium or high risk, the Department outlined specific mitigating actions to consider the risks.

#### Ensure assurance processes are sustainable

The Department and ERCB have agreed on the level of assurance ERCB provides. ERCB outlined all the processes where they provide assurance

over well and production data, and the Department has confirmed that the level of assurance provided by ERCB is acceptable.

In our 2007 progress report, we highlighted a key area where the Department relies on ERCB to provide assurance over the completeness and accuracy of well and production data reported by producers. ERCB's production audit team assesses industry reports against the measurement requirements, through compliance audits.

To improve the efficiency of the assurance provided, ERCB is implementing an enhanced production audit program (EPAP). This new approach to measurement and reporting is designed to raise the level of assurance over compliance with ERCB's volumetric measurement and reporting requirements. The EPAP's design is also a more sustainable approach to providing assurance. It requires industry to declare and, when necessary, prove that the controls over the well and production data they report to the Registry are operating effectively. Although ERCB will still complete measurement compliance audits, the audits will be selected primarily based on risk and noncompliance with the requirements of the EPAP.

Currently, ERCB, with input from the Department, is identifying the most effective means to regularly report the level of assurance provided by the operation of the EPAP and other ERCB volumetric data assurance activities. During the implementation phase of the EPAP, ERCB will continue to report any errors or issues identified through their measurement compliance audits.

Once the EPAP is fully implemented, and the reporting structure is finalized, we will assess these processes.

## Extrapolate findings

Assurance processes at the Department, ERCB and the Registry are designed to identify errors based on the contravention of controls. Therefore, the errors would not necessarily be representative of the population as a whole. The focus of assurance activities is to identify where the highest risk of incorrect measurement and reporting exists and ensure that all measurement and reporting deficiencies are corrected. Further, measurement compliance audits completed by ERCB are conducted on operators that have a history of noncompliance or where the highest risk of incorrect reporting exists.

# Assurance Systems for Volumetric Accuracy—Follow-up Audit

## Summary

The Energy Resources Conservation Board (ERCB) is responsible for administering the *Oil and Gas Conservation Act (Act)*[1]. The *Act* and its regulations require ERCB to gather information about the volume of natural gas and oil produced in Alberta. To make sure this information is accurate, complete and current, ERCB develops measurement, accounting and reporting standards for the oil and gas industry. Every month, the industry provides volumetric data to ERCB, through the Petroleum Registry of Alberta (Registry). To help ensure that this data is accurate, ERCB assesses whether producers are complying with its measurement standards.

### What we examined

In 2005, we audited the systems ERCB uses to ensure that it receives complete and accurate volumetric data from the oil and gas industry, and whether ERCB's level of assurance for this data meets the Department of Energy's requirements for royalty calculations. Based on our examination, we recommended that ERCB explore ways to strengthen its controls for ensuring the accuracy and completeness of oil and gas volumetric data submitted by industry.

We last reported on this audit, and its one underlying recommendation, in our *October 2007 Report* (vol. 2—page 68), in which we provided a progress report on activities ERCB had undertaken and what remained to be completed. We highlighted three areas that had to be completed to fully implement the recommendation. We did this follow-up to assess if ERCB has addressed the outstanding items.

### Why it is important to Albertans

Volumetric data is a key component in the Department's royalty calculations. Royalties provide a significant portion of the Alberta government's revenue. Therefore, it is critically important that ERCB provide assurance that the data used for royalty calculations is complete and accurate.

ERCB also uses volumetric data to:

- assess the industry's compliance with standards (e.g., regulation of flaring/venting)
- determine the province's oil and natural gas reserves
- assess the industry's ability to return wells and facilities to a safe condition after production has stopped

### What we found

ERCB has fully implemented our recommendation. It has identified the level of data assurance its processes provide, assessed the sustainability of its measurement audit processes, and implemented a regular and timely reporting system.

## Audit objectives and scope

Our objective was to determine if ERCB had implemented the recommendation originally reported in our *October 2005 Report* (no. 29—page 169).

We conducted our field work in November 2010 and December 2010, and focused on ERCB's actions since our progress report in 2007.

## Findings

### Assurance systems for volumetric accuracy—implemented

#### Background

ERCB conducts a variety of assurance and audit activities to ensure compliance with regulatory requirements. This includes audits to verify that the industry complies with measurement standards when it reports volumetric data. A large part of

1 Chapter 0-6, RSA. 2000

the compliance work related to volumetric data is conducted by ERCB's information collection and dissemination group and its production audit team. The information collection and dissemination group's primary activities include tracking, assessing, assigning responsibility for and communicating volumetric data issues within the Registry. In 2007, we found that these processes were operating effectively. The production audit team's objective is also to provide assurance that data reported to the Registry is correct. Although the Registry has numerous validation checks and controls, there is still a risk that data could be reported incorrectly within the boundaries of the Registry controls.

In our *October 2005 Report* (no. 29—page 169), we recommended that ERCB explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

In our *October 2007 Report* (page 68), we reported on ERCB's progress and identified what was required to finish implementing our recommendation.

## Our audit findings

Key Points

- The level of data accuracy assurance provided has been identified
- Sustainability of its measurement audit processes has been assessed
- A regular and timely reporting system has been implemented

Since our last follow-up, the production audit team has undergone a transformation in how it provides assurance over volumetric data. The team has developed, and is implementing, an enhanced production audit program (EPAP). The program is designed to enhance the level of assurance over compliance with measurement and reporting of volumetric data.

### Set expected levels of assurance

ERCB completed a comprehensive review to identify an appropriate level of assurance over the accuracy and completeness of volumetric data.

An internal report, *Setting the Expected Level of Assurance for Volumetric Data*, identified existing sources of volumetric data assurance and the needs of internal stakeholders as the basis for enhancing ERCB's production audit program. ERCB concluded that the level of assurance defined in the report:

- aligned with ERCB's mandate
- was achievable within resource constraints
- would support the development of an enhanced production audit program

To facilitate this review, ERCB established criteria for setting the level of accuracy and assurance required by different groups within ERCB. Through interviews with ERCB groups that use, produce or verify volumetric data, and the identification of business processes that provide data assurance, ERCB designed the appropriate level of assurance for volumetric data.

ERCB then communicated the expected level of assurance it could provide to the Department. The Department confirmed that the level of assurance ERCB provides would meet the Department's assurance needs.

### Sustainability of audit processes

In 2007, we found that ERCB's approach to providing assurance over volumetric data was likely not sustainable. The measurement compliance audits could not keep up with industry activity and reporting. To provide and sustain the expected level of assurance, ERCB began developing an EPAP.

The EPAP is designed to enhance the level of assurance over compliance with ERCB's volumetric and reporting requirements. ERCB *Directive 076*[2] outlines what ERCB expects of all operators that are subject to ERCB measurement and reporting requirements and that report to the Registry. ERCB has planned a two-year implementation timeframe, with 2010 as a trial declaration period and 2011 the first declaration period.

2 *Directive 076, Operator Declaration Regarding Measurement and Reporting Requirements*

A key objective of EPAP is to reduce reliance on measurement compliance audits in favour of relying on the effectiveness of each operator's controls over measurement and reporting of volumetric data. The EPAP requires an operator's senior executives to submit a signed declaration, annually, stating that their controls are designed and implemented to ensure compliance with ERCB measurement and reporting requirements. Because the level of assurance is being enhanced through the reliance on operators' controls, *Directive 076* stipulates that operators must annually evaluate their controls for measurement and reporting. Operators must be able to provide evidence of the results of their controls evaluations. ERCB also conducts analysis of volumetric reporting to identify any unusual trends or anomalies, and completes risk assessments to better identify which operators may be examined. Noncompliance with *Directive 076* results in an enforcement directive being applied.

From 2008 to the end of 2010, as EPAP implementation progressed, ERCB completed measurement compliance audits at a reduced rate. From 2011 onward, ERCB will focus measurement compliance audits on the highest risk operators and areas of volumetric reporting, and overall assurance over volumetric data should be improved through EPAP.

## Regular and timely reporting

A memorandum of understanding between ERCB and the Department stipulates that ERCB is expected to provide regular and timely reporting on audit results. Currently, ERCB reports quarterly on all the errors identified through its measurement compliance audits. We reviewed the reports ERCB submitted to the Department in 2009 and 2010. The results indicated only minor differences between volumes reported to the Registry and actual volumes recorded at the facilities.

ERCB expects its reporting structure will change to incorporate the additional information the EPAP will provide. As part of a future examination of ERCB's EPAP, we will assess the finalized reporting structure. At this time, we are satisfied that all results identified through measurement compliance audits are being appropriately reported to the Department.

# Royalty Review Systems—Follow-up Audit

## Summary

The Department of Energy charges royalties on production of Crown-owned hydrocarbon resources. The Minister of Energy is responsible for setting and adjusting royalties for hydrocarbon production. The Department provides the Minister with analysis to support royalty policy decisions, and then implements the royalty regimes. Natural gas, oil sands and conventional oil all have differing royalty rates, programs and structures; thus, Alberta does not have a single royalty regime, but rather a series of royalty regimes.

Alberta's oil and gas industry changes continuously, in response to economic conditions, commodity price volatility, technological innovation, competitive forces and environmental issues. To ensure that royalty regimes meet their objectives, the Department monitors how the regimes are working and how they are affected by changes in the industry. Overall, the purpose of royalty review systems is to measure, monitor and assess the effectiveness of the royalty regimes.

## What we examined

In 2007, we examined the Department's systems for royalty review and made five recommendations (our *October 2007 Report*, vol. 1—pages 115–132). Our audit objective was to determine whether the Department's systems to support royalty review were adequate.

Our recommendations were that the Department should:

- clearly describe and publicly state the government's royalty regime objectives
- improve the planning, coverage and reporting of its technical review work
- improve its annual performance measures of the royalty regimes' results
- periodically report to the public on its royalty regimes
- enhance controls over its monitoring and technical review work

In 2010, when we followed up on the Department's progress in implementing these five recommendations, we considered our original recommendations in light of changes in the province's royalty regimes and in the industry since 2007.

## Why it is important to Albertans

The economic impact of the oil and gas industry and the significance of royalty revenue for funding services such as health care, education and infrastructure, make it important that the royalty regimes are well-designed and monitored to align with the government's policy goals and objectives.

## What we found

The Department has improved its systems for completing technical review work and reporting the objectives and performance of the province's royalty regimes. The Department has implemented controls and improved its processes for planning, executing and reporting on its technical review work. The Department has implemented four of the recommendations and has made satisfactory progress in implementing our recommendation for improving performance measures.

| Recommendations<br>The Department needed to: | Conventional oil and natural gas | Oil sands |
|---|---|---|
| Clearly describe and publicly state the government's royalty regime objectives | Implemented | Implemented |
| Improve the planning, coverage and reporting of its technical review work | Implemented | Implemented |
| Improve its annual performance measures of the royalty regimes' results | Implemented | Satisfactory Progress |
| Periodically report on its royalty regimes | Implemented | Implemented |
| Enhance controls over its monitoring and technical review work | Implemented | Implemented |

Table 1: Status of recommendations

The Department developed performance measures and supplementary indicators to monitor the success of its conventional oil and natural gas royalty regimes in meeting the government's objective of ensuring investment competitiveness in relation to other jurisdictions. The Department plans to use these new indicators and performance measures for reporting in 2011.

The Department has not yet developed measures to assess the performance of the oil sands royalty regime. To develop oil sands competitiveness indicators and measures, the Department must determine what measures best reflect the investment competitiveness of the oil sands. At the time of our audit, the Department was working on developing appropriate measures and supplementary indicators for the oil sands.

### What remains to be done

To fully implement our recommendation, the Department should develop and periodically report its performance targets, measures and supplementary indicators for the oil sands royalty regime.

## Audit objectives and scope

Our follow-up audit objective was to determine if the Department has implemented the five recommendations from our *October 2007 Report.* The scope of our audit was to determine whether the Department has effective systems for reviewing the government's royalty regimes. Our mandate does not extend to determining whether royalty policy objectives are suitable.

We conducted our field work from April 2010 to December 2010 and focused on the Department's actions since our 2007 audit.

## Background

The private sector develops Alberta's energy resources. Through the development of oil and gas resources, Albertans receive benefits from economic activity, from taxes and from royalties.

The government's royalty regimes have to strike a balance between maximizing the return to Albertans from oil and gas production and providing incentive for companies to explore for and produce Alberta's resources. Royalties alone do not account for all economic benefits from development and exploration of energy resources. Investment in the energy sector brings other benefits—for example, it helps create jobs and stimulate the development of infrastructure. Thus, if royalty rates are too high, investment will be impaired and, in the long term, the total economic benefit may decline. On the other hand, if royalty rates are too low, an appropriate return from oil and gas resources for Albertans may not be realized. In short, an effective royalty regime strikes the right balance between royalties and investment, to maximize long-term economic benefits for Albertans. The Department monitors the performance of the province's royalty regimes, to make sure they support this overall objective. The Department is responsible for communicating the objectives, targets and outcomes of the royalty regimes.

Since 2007, the Department's royalty regimes have undergone significant changes, most notably:

- In 2007, the government announced the *New Royalty Framework*[1] that came into effect in 2009.
- In 2008, the government announced transitional royalty rates[2] for conventional oil and natural gas in response to rapid declines in commodity prices and drilling activity.
- In 2009, the government announced programs[3] such as a drilling royalty credit and new well royalty rate, to encourage investment during an economic downturn and decline in commodity prices.
- In 2010, the Department conducted a study[4] of Alberta's conventional oil and natural gas investment competitiveness. Based on the

1 *New Royalty Framework*, October 25, 2007
2 *Alberta to offer transitional royalty rates to promote new drilling,* Government of Alberta News Release, November 19, 2008
3 *Province announces three-point incentive program for energy sector,* Government of Alberta News Release, March 3, 2009
4 *Energizing Investment*, March 11, 2010

study, the government reduced royalty rates for conventional oil and natural gas and added royalty programs for shale, horizontal and coal bed methane production.

The industry has also undergone significant changes since 2007. For example, across North America the industry has rapidly expanded its use of horizontal drilling and hydraulic fracturing[5] technology, which allows producers to access shale gas deposits economically. Application of this technology has increased the supply of natural gas, and has put downward pressure on prices. Better use of technology has also increased access to larger amounts of oil. As a result of these developments, opportunities to exploit conventional oil and natural gas are becoming less scarce in neighbouring jurisdictions and are attracting an increasing amount of investment.

The government has concluded that an exclusive focus on maximizing royalties is not the best response to technological and economic changes, and now places stronger emphasis on investment competitiveness. In the context of royalties, a competitive regime provides risks and rewards that are suitable for a targeted level of investment.

## Findings

## Royalty regime objectives and targets—implemented

### Background

In our *October 2007 Report* (no. 9—page 115), we recommended that the Department of Energy clearly describe and publicly state the objectives and targets of Alberta's royalty regimes.

Governments need assurance that their royalty regimes are meeting strategic priorities and objectives. Royalty regimes may be altered as government objectives change to address new opportunities and challenges. The government, in the context of royalties, has to make decisions based on two competing alternatives: maximizing return from resource development and encouraging the development of the resource. For many years, Alberta has expressed royalty objectives around securing benefits for Albertans and being competitive. Both are considered; however, the emphasis can shift depending on economic circumstances.

In 2007, the government's focus was to ensure that the returns from royalties for extraction of oil and gas in Alberta were as high as possible without impeding investment. The primary measure of this objective was determining what share of profits the government was receiving from extraction of the resource. However, at that time we found inconsistent and ill-defined targets for this objective.

In 2010, we examined whether the Department had clearly communicated the objectives and targets of the royalty regimes in its most recent publications, including publicly available documents as well as internal information.

### Criteria: the standards for our audit

The Department should clearly define and communicate objectives for its royalty regimes.

### Our audit findings

Key Points

- Objectives of royalty regimes are clearly stated
- Targets for conventional oil and natural gas have been developed
- Targets for oil sands royalty regime to be specified once oil sands royalty performance measures have been developed

The Department implemented this recommendation by clearly communicating the primary objective of the conventional oil, natural gas and oil sands royalty regimes.

The Ministry of Energy's 2010–2013 business plan states as the first goal, that: "Alberta has a competitive and effective royalty system, incenting development and maximizing benefits to Albertans." The concept of maximizing benefits to Albertans remains consistent; however, there is a

5 A process where internal fluid pressure fractures the formation, enabling petroleum to flow more freely out of the well.

greater emphasis on having a competitive royalty system and encouraging investment. A key factor behind this shift in emphasis relates to the review[6] completed in 2010 to assess Alberta's competitive position in the conventional oil and natural gas industry. The review noted a number of challenges facing the conventional oil and gas sector, including aggressive competition from other jurisdictions, maturity of the resource, economic and commodity volatility and higher costs of development. Based on this review, the government concluded that changes to the conventional oil and natural gas royalty regimes were needed, and that a focus on encouraging investment was required. The objective of encouraging investment is expressed consistently in both external and internal Department publications. For example, an announcement[7] from the Premier and the Minister of Energy articulated the objective to increase production, employment and other benefits through the modification of the conventional oil and natural gas royalty regimes.

A shift in emphasis toward encouraging investment is apparent through the type of targets and measures used. For example, in the 2010–2013 business plan, the targets and measures are based on conventional oil and natural gas royalty and tax rates in comparison to other jurisdictions, and the supplementary indicators focus on level of industry activity. Previously, the targets and measures were focused on percentage of profits received from the extraction of the resource. The Department continues to analyze the return from the resource by examining the profits industry receives from production and what share the government receives through royalties; however, the Department has stated that this is one component of many to be considered in the analysis of the royalty regimes. Thus, the Department concluded that this is not an objective in itself, but rather a tool to help calibrate where to position Alberta in relation to similar jurisdictions. The 2010–2013 business plan states that: "Success is measured by sustaining vibrant industry activity, and a competitive fiscal regime that attracts investment."

Within the competiveness study, the government stated that oil sands were not included, given their unique position in this area and the continued success in attracting significant investment in new and expanding oil sands projects. The 2010–2013 business plan includes the oil sands royalty regime as part of the overall goal and objective of having competitive and effective royalty regimes. The Department concludes that although the opportunities and the challenges are different in the oil sands, the overall objective is relevant as the oil sands royalty regime should remain responsive to changing conditions and maintain investor certainty. However, the Department has not yet developed targets and measures to assess whether this objective is being met. This is discussed on page 35.

## Planning, coverage and internal reporting—implemented

### Background

In our *October 2007 Report* (no. 10—page 119), we recommended that the Department improve the planning, coverage and internal reporting of its royalty review work.

In 2010, we examined the changes that the Department has made to its systems for planning, executing and reporting its royalty review work. As part of our audit, we examined systems the Department uses to determine the coverage of its technical review work, how it sets technical review priorities and deliverables, and how it deploys resources to meet those priorities.

### Our audit findings

Key Points

- Detailed and complete project plans are being developed for technical review work
- Reporting of technical review work is occurring as stated in the plans

6 *Energizing Investment*, March 11, 2010
7 *Alberta delivers on oil and gas competitiveness*, Government of Alberta News Release, March 11, 2010

The Department has implemented this recommendation with respect to its work in the conventional oil and natural gas area and in the oil sands area.

The Department has changed its organizational structure in the technical review area to bring its personnel and resources for conventional oil, natural gas and the oil sands into a single organizational unit and under a single line of management. This allows the Department to further improve planning of its work and better coordinate deployment of its resources.

The Department has developed formal systems to plan its technical review work. For each technical analysis project, the Department prepares a detailed plan that:

- outlines project objectives, details the work to be done, and identifies internal and external stakeholders involved
- sets a project schedule with interim and final deliverables
- allocates resources and defines reporting relationships

Once a project begins, the Department formally monitors progress against the schedule outlined in the plan. Final project reports focus on objectives set out in the plans and provide detailed analysis of the findings. Final reports are delivered to the level of management outlined in the plans.

We were able to observe implementation of these new and improved systems on the Department's conventional oil and natural gas projects, including the competitiveness review study. No similar technical work has been done in the oil sands area because the Department is still working on determining oil sands performance measures and indicators (see below). The Department plans to use the same planning, coverage and internal reporting systems for technical work in both areas. In the future, we will confirm this as part of our annual financial audit work.

## Improving annual performance measures

Conventional oil and natural gas performance measures—implemented
Oil sands performance measures—satisfactory progress

### Background

In our *October 2007 Report* (no. 11—page 124), we recommended that the Department improve its annual performance measures for the royalty regime.

In 2010, we examined whether the new performance measures reported by the Department were consistent with the stated objectives of the royalty regimes. We also considered whether the performance measures would accurately portray whether or not the royalty regimes are successful in meeting their objectives.

The conventional oil, natural gas and oil sands royalty regimes are designed and administered differently. In particular, the costs, risks, opportunities and challenges of the oil sands royalty regime require that it be considered independently of conventional oil and natural gas, although the objectives of these regimes are similar. We expect the design of particular performance measures to reflect both the similarities and the differences between the royalty regimes, and to allow for a fair assessment of performance against objectives and targets.

### Criteria: the standards for our audit

The Department should periodically and publicly report information about the performance of its royalty regimes against program objectives.

### Our audit findings

Key Points

- A new performance measure for conventional oil and natural gas royalties has been developed
- Performance measures for the oil sands royalty regime have not been developed

### Conventional oil and natural gas

The Department has implemented the recommendation. In the Ministry's 2010–2013 business plan, the Department has developed the new measure and supplementary indicators for conventional oil and natural gas to be included in the Ministry's future annual reports. The measure uses a combined tax and royalty rate for conventional oil and natural gas production in Alberta in comparison to other jurisdictions. The stated target for this measure is that Alberta will have a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions. The measure will help the Department to:

- monitor the effectiveness and competitiveness of Alberta's royalty regime in light of changing economic circumstances
- ensure Alberta's royalty regime continues to support the Government of Alberta's economic and resource development objectives

The Department indicated it will report on the new measure annually. The measure will represent the combined royalty and tax rates for conventional oil and separately for natural gas, and will demonstrate how the combined rates compare to those in other jurisdictions. This separate reporting on conventional oil and natural gas is important, as the opportunities and challenges for each commodity can differ. The Department will also report supplemental indicators, such as production and metres drilled to provide further information on industry activity.

The Department continues to include an upstream oil and gas industry investment (including oil sands) performance measure in its annual report. In 2007, we found that the target for this measure (approximately $15 billion at that time) had been static for a number of years, and had not been indexed to inflation while the oil and gas industry was experiencing rapidly rising costs. Since that time, the Department has annually adjusted its target to incorporate general and industry-specific inflation and any other factors that influence the Department's investment target. The target range for 2010–2011 is $23 to $30 billion. This measure is intended to provide an overall picture of the amount of investment in Alberta's oil and gas upstream industry.

Starting with the 2009–2010 Ministry annual report, the Department is no longer including the "sharing the revenue from resource development"[8] measure. The Department removed the measure because management determined that this measure reflected only a short-term view of a royalty regime's effectiveness and did not reflect the perspective of a long-term impact on industry investment and related economic benefits for Albertans.

### Oil sands

The Department has made satisfactory progress in implementing this recommendation for the oil sands performance measures and targets. The Department has worked on, but not yet fully designed, performance measures and supplementary indicators for the oil sands area. The Department's current challenge is to identify a useful measure that provides clear information on whether the oil sands royalty regime is meeting the province's objectives.

The size and nature of the oil sands resource is unique to Alberta; oil and gas operations in other jurisdictions are not directly comparable to it. For example, the competitive risk of a similar natural gas shale resource in a neighbouring jurisdiction is apparent, whereas the oil sands resource does not face a similar competitive challenge. As a result, the Department must perform analyses to identify specific measures and indicators for investment competitiveness of the Alberta oil sands royalty regime. This work is still under way. Specific oil sands royalty regime measures and indicators are not yet in place.

To fully implement this recommendation, the Department should develop performance measures

8 Calculated by determining the portion of oil and gas industry's annual net operating revenue that is paid to the Crown as royalty, using a three-year moving average.

for the oil sands royalty regime that relate to the government's objectives and targets.

### Implications and risks if recommendation not implemented

Until clearly stated oil sands royalty regime targets and measures are in place, the Department will not be able to readily demonstrate the effectiveness of its oil sands royalty regime.

## Periodic public information—implemented

### Background

In our *October 2007 Report* (no. 12—page 126), we recommended that the Department periodically report to resource owners, MLAs and stakeholders about the performance of and issues for Alberta's royalty regimes and to demonstrate the Department's capacity and methodology to analyze its royalty regimes.

In 2010, we examined what information the Department has developed and made available to satisfy those who need information about the province's royalty regimes.

### Criteria: the standards for our audit

The Department should periodically and publicly report on the performance of its royalty regimes against program objectives.

### Our audit findings

Key Points

- Comprehensive information about royalties and the oil and gas industry is being made available to the public
- The key results and conclusions of recent reviews and studies on royalties have been made publicly available

The Department has implemented this recommendation with respect to its work in the conventional oil and natural gas area and in the oil sands area. The Ministry's annual report is the primary mechanism for reporting on the royalty regimes. The *Ministry of Energy 2009–2010 Annual Report* includes discussion on the challenges facing royalty revenues, the anticipated outcomes of the royalty regimes and what changes have occurred to the royalty regimes over the past year. Since 2007, the Department has also added a variety of statistics related to the royalty regimes, such as production numbers, average commodity prices, wells drilled and well licences issued. The Department also releases monthly updates on well licences, wells spudded (drilling has started), well completions, drilling rig activity and land sales.

In 2009, the Department released a public document[9] that provides an overview of what royalties are, the history of royalties in Alberta, how royalties are collected and how royalties are calculated. The document's purpose is to provide an understandable and general overview of oil and gas royalties. The Department also completed a jurisdictional comparison[10] to develop a framework for comparing other governments' royalty and tax rates on oil and gas production. This document is also publicly available.

In 2010, the government announced a significant change to conventional oil and natural gas royalties, as a result of a competitiveness study completed by the Department. The results of the study[11] are available to the public, as well as much of the supporting technical information used in formulating its conclusions. The oil sands royalty regime was last modified in 2009, as a result of the province's new royalty framework.[12] The recent competitiveness review of conventional oil and natural gas royalties and royalty programs[13] did not include oil sands royalties.

To help identify information to provide publicly, the Department engaged a consultant to assess its communication strategy. The primary purpose was to identify what information Albertans wanted to know about the royalty regimes and how best to communicate it. The Department drew a number

9 *Energy Economics: Understanding Royalties*, September 2009
10 *Alberta's Royalty System—Jurisdictional Comparison*, September 2009
11 *Energizing Investment*, March 11, 2010
12 *New Royalty Framework*, October 25, 2007
13 *Energizing Investment*, March 11, 2010

of conclusions from this work; specifically, that communication should be focused on the royalty regimes' economic outcomes, such as the impact on investment and employment.

We were able to observe a greater level of public reporting by the Department in the conventional oil and natural gas areas. Due to its continuing work on the oil sands performance measures and indicators, the Department has not yet started public reporting at a similar level with respect to the oil sands royalty regime. However, the same public reporting systems will be used in both areas, and the Department has confirmed to us its commitment to report a comparable level of information for the oil sands regime. For these reasons, we conclude that the Department has implemented this recommendation for both the conventional oil and natural gas area and the oil sands area. In the future, once the oil sands performance measures are ready and technical work is done, we will review the Department's oil sands public reporting as part of our annual financial audit work.

## Enhancing controls—implemented

### Background

In our *October 2007 Report* (no. 13—page 129), we recommended that the Department enhance controls for its monitoring and technical review work.

In 2010, we examined how the Department changed its systems for controlling the quality of its technical review work. As part of our follow-up, we examined how the Department documents the work done, sources of data and economic assumptions used. We also focused on design and implementation of systems to control quality of the technical work, including periodic reviews by management.

We did not re-examine the specific calculations and detailed analytical procedures performed by Department staff, as we had not identified issues with this work during the original audit. Consequently, we focused our follow-up audit on assessing the design and implementation of the Department's control system.

### Our audit findings

Key Points

- Controls over technical review work have improved
- Systems to manage internal and external information and action requests have improved

The Department has implemented this recommendation for conventional oil and natural gas, as well as for oil sands. The Department has introduced formal systems to document and track sources of data, economic assumptions and work done by individual analysts. The Department has also formalized detailed analytical methodologies for conventional oil and natural gas. This helps the Department manage its internal knowledge, and ensures that, with staff turnover, a qualified replacement can take over with minimal process disruption and knowledge loss.

The Department has improved its systems to review the quality of its technical work. These quality reviews take place at two levels. At the peer review level, key analysis and results are reviewed by another analyst. On the management level, quality reviews are done at specific times, as required by a project plan. These reviews help minimize the number of technical errors and ensure consistent use of assumptions and analytical tools. Outcomes of quality reviews are clearly stated and documented internally.

The Department has improved its system to track and reference sources of key results and figures in its reports. While final reports may not provide complete referencing, the Department maintains internal versions of documents with detailed referencing, which would enable it to provide a link to specific data sources in case there is a need for it.

The Department has improved and formalized its systems to manage internal and external information and action requests. The Department has formalized the process to receive, process

and act on requests for technical review work and related information. When the Department begins to take action on such requests, it initiates the project planning process mentioned earlier in this report. By following these project plans, the Department ensures that its responses to questions and action requests are complete and timely.

We were able to observe implementation of these new and improved systems on the Department's conventional oil and natural gas projects, including the competitiveness review study. No similar technical work has been done in the oil sands because the Department is still working on determining oil sands performance measures and supplementary indicators. The Department informed us the same control systems will be used for technical work in both areas. In the future, once the oil sands performance measures and supplementary indicators are ready and technical work is done, we will review the Department's use of quality controls in the oil sands technical work as part of our annual financial audit work.

# Enterprise Risk Management—Follow-up Audit

## Enterprise risk management—implemented

### Background

In our *October 2002 Report* (no. 16—page 101), we recommended that Alberta Treasury Branches[1] (ATB) develop an integrated approach to effectively manage operational, credit and market risk. We repeated this recommendation in our *October 2003 Report* (no. 16—page 121).

Enterprise risk management (ERM) is an approach used by organizations to manage risks related to the achievement of their objectives. ERM helps ATB management account for its risk management responsibilities, and engage ATB's board of directors in discussions about:

- the nature, likelihood and potential impact of risks related to ATB
- ATB's tolerance for various risks
- the status of controls to mitigate risks
- the cost and priority of initiatives to mitigate risks
- the results of ongoing monitoring

In 2008, ATB created the position of Chief Risk Officer (CRO). ATB's accountability profile states that the CRO "owns, manages and develops the risk management function in line with industry best practice. The CRO sets ATB's risk management policies and business rules, monitors compliance with them and provides risk information to ATB's management and board of directors."[2]

This year, we reviewed ATB's progress in implementing our recommendation. We reviewed key ATB documents, as well as the responsibilities and accountabilities of corporate committees formed to implement its risk management strategy.

### Our audit findings

ATB implemented this recommendation by developing an ERM framework. In August 2009, ATB formalized its approach to risk management by approving its ERM framework and policy.

ATB's ERM framework:[3]

- identifies and defines key risks as being strategic, business, reputation, regulatory, credit, market, liquidity and operational
- outlines principles for assigning risk ownership
- details the risk governance structure
- defines risk appetite and limits
- describes impact and likelihood ratings
- describes options for the treatment of risks and risk treatment planning
- defines and sets out expectations for stress testing the ERM strategy

ATB's ERM policy[4] includes a:

- process for identifying how much risk ATB is prepared to accept
- process for reporting its risks
- requirement for stress testing the ERM strategy
- delegated authority and accountability structure

ATB has also:

- completed a risk appetite statement that defines the level of risk ATB is willing to accept—ATB assigned individual risk appetite ratings for each key risk.
- presented a Risk Committee Report in November 2010 to its board of directors—This report presented the results of a corporate-wide risk survey facilitated by management. It identified ATB's most significant risks coming out of the risk survey, along with the potential impacts and likelihood of these risks to ATB.

While there is still some work to be done, ATB has completed sufficient work to implement components of an ERM process, thereby successfully implementing our recommendation. Although ATB has not yet performed stress testing on key corporate risks, identified leading indicators or formulated mitigation strategies, we understand that these initiatives are planned as ATB continues to develop its enterprise risk management processes. We encourage ATB to continue its ERM process development.

1 Now ATB Financial
2 *Accountability Profile*, ATB Financial, page 1
3 *Enterprise Risk Management Framework*, ATB Financial, August 27, 2009
4 *Enterprise Risk Management Policy*, ATB Financial, August 2009

# Treasury Management—Follow-up Audit

## Summary

Treasury management means planning, organizing and controlling the funds of an organization, optimally, profitably and within acceptable levels of risk. ATB Financial (ATB) is exposed to treasury risks that, if not adequately managed, could prevent ATB from meeting its business objectives. Treasury risks include risks related to investments, liquidity, interest rates, foreign exchange, and credit risk related to securities and derivatives.

In 2008, we assessed whether ATB had effective systems to manage its treasury risks. In this follow-up audit, we assessed ATB's progress implementing 12 of the 15 recommendations we made in our *October 2008 Report* (pages 109–149). Three recommendations from 2008 remain outstanding; we did not assess their implementation as part of this follow-up audit.

## What we examined

We assessed ATB's progress improving the way it manages its treasury risks. Specifically, we followed up on ATB's progress with improving its:

- processes for making investments, establishing performance targets and awarding performance pay for investment activities
- processes for complying with the Minister of Finance and Enterprise's guideline for liquidity, liquidity reporting, liquidity contingency planning and liquidity risk identification processes
- processes for creating, applying and validating assumptions used in its models for interest rate risk exposure; for reporting to senior management and ATB's board of directors on these exposures; defining and modeling significant interest rate risk exposures
- treasury management policies
- internal audit processes to regularly examine ATB's derivative activities
- Asset Liability Committee's (ALCO's) effectiveness

## Why it is important to Albertans

ATB provides financial services to over 685,000 customers in approximately 240 Alberta communities and has over $26 billion in assets. ATB's profits belong to all Albertans, along with a risk of loss because the Government of Alberta provides a deposit guarantee to all ATB depositors. Because of the deposit guarantee, Albertans have a significant stake in ATB's financial success and in how well ATB manages its financial risks.

## What we found

We reviewed 12 recommendations from 2008, and concluded that ATB has:

- implemented six
- resolved two, through changed circumstances
- made satisfactory progress with three
- not made satisfactory progress with one recommendation; we repeat this recommendation in this report

Since our original report in 2008, ATB has significantly improved its treasury risk management systems. Our *October 2008 Report* highlighted events at ATB leading up to the market disruption of asset-backed commercial paper (ABCP) in August 2007. Since our 2008 audit, ATB has changed its investment processes to respond to the lessons learned from the ABCP market disruption. While ATB has improved the way it manages interest rate risk, further improvements are still needed.

Some of the significant changes ATB has made to manage its treasury risks include:

- improving the oversight of treasury risks with a stronger, strategically focused ALCO
- hiring a Treasurer with broad financial institution experience
- reorganizing its treasury area to align roles and responsibilities to treasury risks

The highlights of this audit are:

- **Investments**—ATB has reduced its exposure to individual investment counterparties, no longer relies only on an opinion from one credit rating agency and monitors the credit risk of counterparties through an early warning system. Performance incentives that contributed to ATB purchasing higher yielding ABCP have been removed.
- **Liquidity**—ATB has standardized the way it calculates liquidity and improved its liquidity contingency plan. ATB made satisfactory progress implementing our recommendation on performing liquidity simulations.
- **Interest rate risk management**—ATB has improved the quality and quantity of interest rate risk information being reported to ALCO and its board of directors. ATB made satisfactory progress with its interest rate risk models and scenarios. We repeat our recommendation on interest rate model assumptions because ATB has not done sufficient work to implement it.
- **Other items**—ATB's ALCO has replaced its tactical approach with a more strategic one, which has significantly improved its overall effectiveness. ATB's internal auditors regularly review ATB's derivative activities. ATB is making satisfactory progress on improving its treasury policies.

## What needs to be done

ATB still needs to:

- perform liquidity simulations regularly
- improve its processes for creating, applying and validating assumptions used in its interest rate risk models, and further define significant interest rate exposures and model those exposures
- update and review treasury policies regularly

ATB also still needs to implement the remaining three recommendations that were not assessed in this audit. These outstanding recommendations deal with:

- upgrading its treasury management information systems
- strengthening its controls over measuring interest rate exposures
- reviewing the role of its middle office[1] to ensure it has the resources necessary to fulfill its roles and responsibilities

ATB told us that it expects to have implemented the recommendations on controls over measuring interest rate exposures and the role of middle office within the next 12 months.

## Audit objectives, scope and approach

Our objective was to assess ATB's progress with implementing 12 of 15 recommendations we made in October 2008. ATB indicated to us prior to our audit that it had implemented these 12 recommendations. We will follow-up on the remaining three recommendations when ATB indicates to us that they have been implemented.

We conducted our audit from September to November 2010. Our procedures included reviewing ATB documentation, discussions with staff, and walkthroughs and tests of treasury processes. We were assisted on this audit by external advisors with knowledge of treasury and financial service industry best practices.

## Background

### ATB background and regulatory environment

ATB is a provincially owned, full-service financial institution, with assets of over $26 billion at September 30, 2010. As a Crown corporation, ATB operates pursuant to the *Alberta Treasury Branches Act*[2] and *Alberta Treasury Branches Regulation*[3] and under the oversight of a board of directors appointed by the Lieutenant Governor in Council. The ATB board of directors is accountable to the Minister of Finance and Enterprise.

1 The middle office monitors market risk, values securities and derivatives, and ensures compliance with certain treasury limits/processes.
2 RSA 2000, c.A-37
3 AR 187/97

ATB's board of directors approves investment, derivative, credit and financial risk management policies. Management implements those policies by designing systems, processes and risk management techniques that also comply with the regulatory framework and with guidelines issued by the Minister. Three of these guidelines[4] relate specifically to treasury management:

- liquidity
- prudent person rule
- derivatives best practices

### Financial institution treasury risks

As a financial institution, ATB is exposed to:

- credit risk—that a counterparty will cause a financial loss for ATB by failing to discharge a financial or contractual obligation
- market risk—that ATB may incur a loss caused by adverse changes in market prices
- foreign currency risk—that ATB may incur a loss caused by changes in foreign exchange rates
- interest rate risk—that ATB may incur a loss caused by changes in market interest rates
- liquidity risk—that ATB will be unable to meet its obligations as they come due or will be unable to fund itself at economical levels

### Board oversight committee and senior management committees

The main responsibility for managing ATB's treasury risks rests within its treasury department. The Risk Management Group monitors risk and provides reporting to senior management. The management committee that oversees treasury risk management is ALCO. The board of directors oversees treasury risk management through the board's Risk Committee.

ALCO is responsible for the oversight and strategic management of ATB's financial risks, including interest rate, liquidity and foreign exchange, as well as funding and investing, capital planning and any other aspects of strategic balance sheet management, asset liability management and associated hedging strategies.

The responsibilities of the board's Risk Committee include:

- reviewing and recommending to the board of directors reasonable and prudent investment and lending policies, standards and procedures to avoid undue credit risk and potential loss
- reviewing and recommending to the board of directors credit risk management policies for approval by the board
- reviewing and recommending to the board of directors policies related to risks surrounding asset liability management, liquidity, interest rate management, foreign exchange and the investment portfolio
- annually reviewing the effectiveness and application of market risk management and liquidity risk management policies, standards and procedures

## Findings and recommendations

We present our audit findings under the four categories of recommendations from our *October 2008 Report*—investments (see below), liquidity (see page 47), interest rate risk (see page 48) and other recommendations (see page 50).

## Investments

As part of our *October 2008 Report,* we examined certain decisions ATB made in 2007 leading up to the disruption in the asset-backed commercial paper market that occurred in Canada in August 2007. At the time of the disruption, ATB held approximately $1.1 billion in third-party ABCP investments. In 2008, we noted:

- ATB's investment policy allowed ATB to have exposure up to 60%, or approximately $1.8 billion of its $3 billion investment portfolio in the commercial paper asset class, which includes ABCP.
- ABCP investments were considered investment grade by investors because of the R1-high or

4 http://atb.com/Dev/aboutatb/atb_regulatory_framework.asp

triple-A ratings issued by a credit rating agency, and no other credit analysis was done by ATB.
- ATB did not actively monitor credit risk of its investment counterparties.
- ATB received a minimally higher return from investing in third-party ABCP compared to other acceptable investments under the investment policy.
- ATB chose to invest in third-party ABCP to achieve increasing treasury performance targets. The variable pay program for ATB employees responsible for purchasing ATB's investments was also partially based on achieving these targets.

As at December 31, 2010, ATB's asset-backed commercial paper holdings had a face value of approximately $1 billion and a fair value of approximately $620 million. We will not know the actual cash loss of capital and interest until these notes mature, which is expected to be in 2016. Below are the results of our follow-up of our three recommendations related to ATB's investment processes.

## Business rules and operating procedures—implemented

### Background

In our *October 2008 Report* (no. 12—page 118), we recommended that ATB develop and document the business rules and operating procedures required to implement its investment policy.

### Our audit findings

ATB implemented this recommendation by improving its business rules and operating procedures for investments. Specifically, ATB:
- has reduced the maximum exposure allowed per individual counterparty and the allowable exposure to the commercial paper asset class, which includes ABCP
- requires credit analysis of counterparties before they are added to the approved investment list and has increased the required number of credit rating agency ratings to two
- uses an early warning system to actively monitor credit risk of its counterparties

ATB has implemented the improved business rules and operating procedures.

## Performance targets—changed circumstances

### Background

In our *October 2008 Report* (page 123), we recommended that ATB improve its process for establishing performance targets for employees in its Global Financial Markets group, by discussing the targets with ALCO and maintaining evidence that supports decisions made.

### Our audit findings

ATB reorganized Global Financial Markets into another treasury area within ATB and the new area no longer has performance targets linked to investment returns. The performance targets are now based on corporate performance targets. This recommendation is no longer relevant because staff who purchase investments are no longer compensated based on investment performance.

## Variable pay program—changed circumstances

### Background

In our *October 2008 Report* (page 125), we recommended that ATB complete its business rules on how to calculate variable pay for Global Financial Markets staff, by clarifying how to deal with revenue not collected and with investment losses.

### Our audit findings

ATB removed performance targets linked to investment returns from its variable pay program for individuals who purchase investments. Therefore, this recommendation is no longer relevant because these employees are no longer compensated based on investment performance.

# Liquidity

## Liquidity reporting—implemented

### Background

In our *October 2008 Report* (page 127), we recommended that ATB agree internally on a consistent measure of liquidity and report that measurement to its board and to the Department, to provide regular and fair reporting.

### Our audit findings

ATB implemented this recommendation by standardizing the way it calculates liquidity. ATB's liquidity policy clearly identifies how liquidity is calculated. ATB's funding group within the Treasury Department reports current liquidity levels monthly to ALCO and quarterly to the board. The Department also receives this information.

## Liquidity contingency plan—implemented

### Background

In our *October 2008 Report* (no. 13—page 129), we recommended that ATB develop a comprehensive liquidity contingency plan to be better prepared for a liquidity crisis and to fully comply with the Minister's liquidity guideline. The plan should be updated and approved regularly.

A liquidity contingency plan describes an organization's approach to funding and to abnormal liquidity situations. The Minister's liquidity guideline contains specific items that should be included in ATB's liquidity contingency plan. These guidelines are intended to help regulated entities like ATB ensure they have and maintain an adequate liquidity contingency plan; however, they are not mandated to be followed.

### Our audit findings

ATB implemented this recommendation by including the following in its liquidity contingency plan:

- specific procedures that outline information flow to senior management
- clear division of responsibilities
- priority of alternative sources of funds
- elevation procedures when liquidity limit breaches occur

Although ATB's liquidity contingency plan has been improved, it does not fully comply with the Minister's liquidity guideline. ATB concluded some requirements of the guideline are no longer relevant. We agree with ATB's conclusions and consider this recommendation to be implemented.

## Liquidity simulations—satisfactory progress

### Background

In our *October 2008 Report* (page 128), we recommended that ATB further expand its use of liquidity simulations as a forward-looking liquidity risk measurement tool. We also recommended that ALCO and the board's oversight committee consider whether the results of liquidity simulations indicate a need to modify ATB's business plan.

Liquidity simulations are a tool management uses to support liquidity management and funding decisions. If these simulations are not done, ATB may be limited in its ability to anticipate and deal with potential liquidity disruptions.

### Our audit findings

Key Point

ATB is not complying with its Liquidity Risk Management Policy that requires liquidity simulations to be done quarterly

ATB made satisfactory progress implementing this recommendation. ATB now annually performs the following liquidity simulations:

- global systemic—a widespread lack of consumer confidence in the global financial services market
- Canadian systemic—a widespread lack of consumer confidence in the Canadian financial services market
- ATB specific—events that do not impact other financial institutions

To fully implement this recommendation, ATB must perform its liquidity simulations at least quarterly to comply with its *Liquidity Risk Management Policy,* February 2010.

### Implications and risks if recommendation not implemented

ATB may limit its ability to anticipate and develop strategies to deal with potential liquidity disruptions by not implementing expanded liquidity simulations as a regular part of its liquidity risk management process.

## Interest rate risk

### Interest rate risk reporting—implemented

### Background

In our *October 2008 Report* (no. 14—page 131), we recommended that ATB provide more qualitative and quantitative reporting to senior management and the board on its interest rate risk management.

ATB's objective for managing interest rate risk is to achieve stable earnings and value growth through active management of its asset (loans and securities) and liability (deposits) positions. In practice, this is achieved through interest rate hedging strategies designed to minimize the impact that changes in interest rates would have on net interest income and maintain the effects of changes in interest rates within a target limit of net income.

This information allows management to make strategic decisions and develop appropriate risk mitigation strategies on interest rate risk management. We reported in 2008 that management provided limited reporting to ALCO and the board of directors.

### Our audit findings

ATB implemented this recommendation by improving the interest rate risk information provided to ALCO and the board. We attended the September 2010 meeting of ALCO and observed that the committee's monthly materials contain the major sources of interest rate risk exposure to ATB and explain movements in interest rate sensitivity from one reporting period to the next. This reporting also includes ATB's compliance with policy limits. Similar reporting is provided to the board of directors.

We are satisfied that ATB now reports sufficient qualitative and quantitative information on its interest rate exposure. However, as we note under the headings Interest rate risk model assumptions (below) and Interest rate risk modeling and stress testing (see page 49), the processes to support underlying data used in the interest rate risk management reports need improvement.

### Interest rate risk model assumptions—recommendation repeated

We repeat this recommendation because ATB has not made sufficient progress improving its processes for creating, applying and validating assumptions used in its interest rate risk models.

### Recommendation: interest rate risk model assumptions

**RECOMMENDATION NO. 1—REPEATED**

We again recommend that Alberta Treasury Branches improve processes for creating, applying and validating assumptions used in its interest rate risk models.

### Background

We first made this recommendation in our *October 2008 Report* (page 132).

Interest rate risk modeling provides management with information to evaluate how sensitive ATB's net income and the value of its balance sheet are to changes in interest rates. Management develops product pricing and hedging strategies based on the information from its modeling process. For example, management makes decisions to purchase derivatives to hedge interest rates based on model output.

Interest rate risk modeling is an assumption-driven process. Assumption risk represents a significant

risk to the measurement of interest rate risk and can potentially result in very different risk measurements. For financial institutions, the preferred method of developing modeling assumptions is to collect and perform analysis of historical data. Analytical approaches are used to perform analysis of the data with the objective of defining scenario specific assumptions. All assumptions become dated over time, so ATB must continuously collect and validate data to calibrate the assumptions when required.

### Criteria: the standards for our audit

ATB should have effective processes for creating, applying and validating assumptions used in its interest rate risk models.

### Our audit findings

Key Point

ATB has not done enough to ensure the assumptions used in its interest rate risk modeling are accurate and validated periodically

ATB does not have a process to periodically validate, through the analysis and review of historical data, important assumptions used in its models. In 2009, ATB performed an analysis that focused on certain assumptions. The level and frequency of analysis of historical data used to review and validate other important assumptions is not yet at a level that would allow us to conclude satisfactory progress has been made. All assumptions become dated over time, so it is critical to provide for the ongoing collection of data and periodic analysis of data to calibrate the assumptions.

ATB's progress has been limited because resources in the asset liability management group are seconded to work on its new banking system implementation. ATB told us that no formal plan or project currently exists to demonstrate how it will ensure its assumptions are validated on a regular basis.

To implement this recommendation, ATB must:

- develop a recurring process to analyze important model assumptions to ensure they are accurate and fit the characteristics of ATB products and customers
- establish a change control process, which would include a process to review, update and approve significant changes to assumptions used in its models
- create a process for validating model assumptions through back-testing or comparisons of significant assumptions to actual results

### Implications and risks if recommendation not implemented

Management may make incorrect product pricing and risk mitigation decisions if the assumptions for modeling interest rate risks are inaccurate and lead to unreliable information.

## Interest rate risk modeling and stress testing—satisfactory progress

### Background

In our *October 2008 Report* (page 134), we recommended that ATB define its significant interest rate risk exposures and model those significant exposures to assess the effects on future financial results.

Interest rate risk modeling and stress testing provides management with insights into determining the impact of scenarios on the organization and assessing what scenarios may be potentially stressful to the organization. This helps management develop meaningful strategies to deal with these scenarios. Additionally, stress testing allows management to identify early warning signals that management can monitor to determine if a stress scenario is developing.

## Our audit findings

Key Points

- ATB does not regularly perform interest rate stress testing
- ATB has not completed its analysis of basis and option risks

ATB has made satisfactory progress implementing this recommendation.

ATB has started to define its basis[5] and option[6] risk exposures through the creation of an inventory of products, which identifies where basis and option risk exists. ATB cannot fully implement our recommendation because its current information systems do not contain sufficient data to allow an effective analysis to be completed of option and basis risk exposures. ATB expects it will have this information when its new banking system is implemented.

ATB has defined the relevant interest rate risk stress scenarios that it feels are appropriate. However, it has not run these scenarios because of resource constraints. ATB expects to be able to run these scenarios once the new banking system is implemented.

To fully implement this recommendation, ATB must complete its analysis of option and basis risk, and perform its stress testing scenarios regularly.

## Implications and risks if recommendation not implemented

If ATB does not perform periodic scenarios to evaluate its potential interest rate risk exposure from different sources, management may not be fully aware of its interest rate risk exposures, resulting in unexpected financial losses.

5 Basis risk occurs in variable interest rate products when the interest rate spread between two different rates widens or contracts. Since variable rate products are indexed to either a market index or an internally managed rate, certain indices may lag the market rate movements, which can slow or accelerate the impact of basis risk.

6 Option risk occurs when a customer or the financial institution has the ability to alter transaction terms and cash flows. In general, options will only be exercised if there is a benefit to be gained by the holder of the option. Common examples of product options are prepayments for loans or interest rate commitments.

# Other recommendations

## Role of ALCO—implemented

### Background

In our *October 2008 Report* (no. 15—page 142), we recommended that ATB review the role of ALCO and consider restructuring it into two tiers.

### Our audit findings

ATB implemented this recommendation by creating terms of reference for ALCO that outlined the committee's responsibility for the oversight and strategic management of ATB's treasury risks. ALCO's revised structure allows it to strategically focus on treasury risk management decisions. We reviewed the committee's minutes and attended the September 2010 ALCO meeting and observed:

- the focus of the committee has moved from tactical to strategic
- attendance by senior management was good, representing all significant lines of business
- strategies were discussed and approved
- appropriate discussions were held on risk management, asset liability management, liquidity and updates on the significant lines of business

## Internal audit program—implemented

### Background

In our *October 2008 Report* (page 143), we recommended that ATB's internal auditors regularly examine all types of ATB's derivative activities, to:

- promptly identify and rectify internal control weaknesses
- fully comply with the Department's guideline for derivatives best practices

### Our audit findings

ATB's internal audit department implemented this recommendation by adopting a risk-based approach that prioritizes its audit work, including derivatives, based on an enterprise-wide risk assessment. This process classifies all areas at ATB by risk; internal audit uses these risk assessments to determine upcoming audit work. In response to this risk assessment, internal audit

has planned a derivative focused audit for fiscal 2011. In 2009, internal audit also performed an audit of interest rate management that included derivatives.

## Treasury policies—satisfactory progress

### Background

In our *October 2008 Report* (page 139), we recommended that ATB implement the updated investment and derivatives policies for changes arising from its recent review of those policies. We also recommended that ATB review its financial risk management policy.

### Our audit findings

Key Points

- ATB has not completed annual reviews and updates to its treasury policies
- Some treasury policies do not reflect the current organizational structure within ATB's Treasury department

ATB has made satisfactory progress implementing this recommendation. ATB updated and implemented its policies in late 2008. The improvements to the policies included:

- splitting the derivative policy to take into account separate programs around corporate and client derivatives
- incorporating clearer roles and responsibilities around reporting
- clearly stating ATB's investment objectives and risk philosophy
- adopting more stringent requirements, such as multiple external credit ratings, before an investment could be added to the approved investment listing

However, some policies have not been reviewed and updated since 2008. The policies state they are to be reviewed on at least an annual basis by ATB's board of directors. The policies that have not been reviewed annually are:

- *Treasury Derivatives Risk Management Policy*– August 2008
- *Client Derivatives Risk Management Policy*– August 2008
- *Investment Risk Management Policy*– August 2008
- *Interest Rate Risk Management Policy*– May 2009

We noted through our audit that policies last updated in 2008 refer to areas within ATB that were restructured. In the absence of up-to-date policies, roles and responsibilities may not be clear and the policies become ineffective.

To fully implement this recommendation, ATB must keep its treasury policies current through at least annual reviews and updates.

### Implications and risks if recommendation not implemented

Management decisions and actions may not be within ATB's risk tolerance if policies are not clear and up to date.

# ME first! program—Follow-up Audit

## ME first! program—satisfactory progress

### Background

In our *October 2008 Report* (no. 37—page 335), we recommended that the Department of Municipal Affairs (Department) assess the effect of energy savings on greenhouse gas emissions. The energy savings were anticipated from projects funded by the Department's ME first! program. We also recommended that the Department report lessons learned from this program to departments involved in creating climate change programs.

This year, we conducted a follow-up audit to assess the Department's progress in implementing our recommendation. We reviewed the reports the Department received on projects funded by the ME first! program. We also reviewed the Department's reporting of the lessons learned to other departments.

### Our audit findings

The Department continues to follow up with municipalities to obtain Energy Reduction Confirmation Reports (ERCRs) for all projects that have been completed for one year or more. This represents 77 projects out of the original 84, and 56% of the total loan value as of December 2010.

The remaining seven projects funded in 2004 and 2007 are not complete; therefore, the ERCRs have not been prepared by the municipalities. The Department needs to continue to monitor these projects to ensure compliance with the program requirements, as they make up a substantial portion of the program.

The reporting that we tested from the municipalities on the energy savings realized from the projects was not consistent. For example, we found that one municipality reported their actual energy usage instead of savings for the year.

### What needs to be done

To fully implement our recommendation, the Department should continue to monitor the outstanding projects to ensure that municipalities obtain consistent energy savings information for all projects.

At the conclusion of the program, the Department should update the report on the lessons learned based on an overall assessment of the program, including an analysis of total costs, benefits generated and an identification of improvements that could be incorporated if a similar program is considered in the future.

# Confined Feeding Operations—Follow-up Audit

## Summary

Confined feeding operations (CFOs)[1] are enclosed areas where operators confine livestock for the purpose of growing, finishing or breeding them. Alberta has about 2,000 CFOs.

Natural Resources Conservation Board (NRCB) assumed responsibility for administering the *Agricultural Operation Practices Act (AOPA)*[2] effective January 1, 2002. Prior to 2002, CFOs were approved and regulated by municipalities in accordance with municipal requirements. Over half of all CFOs in NRCB's database were constructed before 2002.

As part of its work, NRCB monitors and enforces compliance with the *AOPA*, to ensure that Alberta's CFOs operate in an environmentally sustainable way.

### What we examined

We followed up on recommendations from our 2004 audit and 2007 follow-up audit of NRCB's monitoring of confined feeding operations.

In our *October 2004 Report* (no. 28—page 294), we recommended that NRCB:

- manage odour and nuisance complaints more efficiently
- rank its compliance and enforcement activities based on risk
- prepare operational plans, at the division level, that integrate with its annual business plan and budget

In 2007, we found that NRCB had made progress in managing nuisance and odour complaints and had integrated its operational and business plans. We repeated the risk analysis part of our 2004 recommendation to encourage NRCB to consider the merits of using a comprehensive environmental risk assessment approach to regulating CFOs (our *October 2007 Report*, no. 34, vol. 2—page 167). Based on the 2007 audit criteria, we outlined four steps NRCB needed to take to implement our recommendation.

### Why it is important to Albertans

*AOPA* sets out mandatory standards that address risks to the environment and impacts on communities. The major risk is contamination of groundwater resource[3] and surface water. CFOs can also cause unpleasant odours in the vicinity of the CFO.

### What we found

#### More efficient approach to odour and nuisance complaints

NRCB implemented our 2004 recommendation to manage odour and nuisance complaints more efficiently. These improvements are reflected in a new odour complaint form.

#### Risk-based assessment and enforcement of CFO compliance

**Groundwater**—NRCB has made significant progress with designing and implementing a risk-based compliance program for groundwater.

In 2007, NRCB still needed to:

| | 2011 Status |
|---|---|
| Define, through research, the environmental risks applicable to CFOs and their impact | Implemented |
| Categorize CFOs by priority levels of environmental risk at different locations | Implemented |
| Conduct appropriate sampling and testing to confirm the validity of assigned risk levels | Implemented |
| Select and deliver appropriate compliance and enforcement action | Satisfactory Progress |

1 "Confined feeding operation means fenced or enclosed land or buildings where livestock are confined for the purpose of growing, sustaining, finishing or breeding by means other than grazing and any other building or structure directly related to that purpose, but does not include residences, livestock seasonal feeding and bedding sites, equestrian stables, auction markets, race tracks or exhibition grounds." Section 1(b.6) *Agricultural Operation Practices Act*, Chapter A-7 RSA 2000

2 Chapter A-7, RSA 2000

3 Means groundwater resource as defined in AR 267/2001, Section (1.1)(g.1)

**Surface water**—we intended for our 2004 recommendation (repeated in 2007) to cover both groundwater and surface water risks. However, NRCB interpreted our recommendation as being solely for groundwater risks, as many of our observations were about groundwater. We found this difference in interpretation when we began our current follow-up.

NRCB's system for assessing surface water risks differs from its risk-based compliance program for groundwater. We were unable to find evidence that NRCB's approach will detect significant surface water risks before contamination occurs and have, therefore, made a new recommendation to NRCB for surface water risks.

### What remains to be done

**Groundwater**—To fully implement our recommendation to assess and enforce CFOs' compliance based on groundwater risk, NRCB needs to:

- develop a system to periodically follow up on those sites it categorizes as potentially high-risk to groundwater, to detect if risk levels have changed as a result of operational changes
- demonstrate that it is enforcing the new groundwater monitoring and reporting conditions

**Surface water**—NRCB needs to obtain evidence to demonstrate that its compliance approach will be adequate in proactively managing surface water risks.

## Findings and recommendations

## Efficiently manage odour and nuisance complaints—implemented

### Background

In our *October 2004 Report* (no. 28—page 294), we recommended that NRCB manage odour and nuisance complaints more efficiently.

### Our audit findings

NRCB has implemented our recommendation. NRCB uses a new odour complaint form as part of its complaint resolution process. The form helps compliance staff to systematically assess the likely causes of odours and respond with on-site inspections only when necessary. As a result, NRCB is able to use resources more efficiently.

## Rank compliance and enforcement activities based on risk

| | Groundwater |
|---|---|
| Define, through research, the environmental risks applicable to CFOs and their impact at different locations | Implemented |
| Categorize CFOs by priority levels of environmental risk | Implemented |
| Conduct appropriate sampling and testing to confirm the validity of assigned risk levels | Implemented |
| Select and deliver appropriate compliance and enforcement action | Satisfactory Progress |

**Surface water**—See our new recommendation for Surface Water Risks on page 59.

### Groundwater risks

### Background

In our *October 2007 Report* (no. 34, vol. 2—page 167), we repeated our 2004 recommendation that NRCB rank its compliance and enforcement activities based on environmental risk.

### Criteria: the standards for our audit

NRCB should focus compliance activities on CFOs that represent the highest environmental risks. To do this, NRCB should:

- identify risk criteria
- use the criteria to rank CFOs and identify those in higher risk locations
- assess samples of CFOs in higher risk locations and conduct comprehensive assessments to confirm if NRCB's risk criteria are valid and the risks are actually present
- test to detect changes in risk levels over time
- conclude on the prevalence and impact of risks

NRCB should gather enough information to decide whether to take additional compliance action.

## Our audit findings

Key Points

NRCB has significantly improved its risk-based assessment of groundwater compliance, but has not yet:

- developed a system of random periodic inspections to detect whether CFOs' risks change in locations defined as potentially high risk
- completed a full cycle of monitoring and enforcing compliance with the new monitoring and reporting conditions

Our assessment of NRCB's progress for each part of our recommendation for groundwater risks is provided below:

### Define, through research, the environmental risks applicable to CFOs and their impacts—implemented

NRCB reviewed a report commissioned by the Department of Agriculture and Rural Development (ARD), which provided a comprehensive review of research studies and other literature on the effect of manure storage at CFOs on groundwater quality. The report indicated that Alberta should have many sites where the hydrogeology is suitable for CFOs, because there are relatively thick clay deposits over much of the province and relatively few extensive, shallow aquifer systems. However, the report also confirmed that "soil and groundwater contamination can occur from CFOs."

NRCB used information from a variety of sources, including ARD's report, to develop an environmental risk screening tool for assessing and ranking CFOs as high, medium or low risk, for both groundwater and surface water contamination. The risk screening tool identifies and quantifies key risk factors.

### Categorize CFOs by priority levels of environmental risk—implemented

NRCB uses two approaches to categorizing CFOs by groundwater risk. In the first, NRCB rates a CFO's preliminary risk as high for groundwater if the feeding operation:

- stores liquid manure in a lagoon
- was built before 2002, when construction details are not always available
- is in an area of high groundwater vulnerability (according to groundwater vulnerability maps)

To make its preliminary evaluation, NRCB staff review file documentation, but do not visit the CFO or contact the operators. Through this review, NRCB identified that there are 172 CFOs with a preliminary high-risk rating for groundwater. NRCB plans to assess these high-risk CFOs using the groundwater section of its risk screening tool as part of its compliance and enforcement program.

In its second initiative, NRCB used the risk screening tool to assess the risk of 234 CFOs that had groundwater monitoring requirements in their permits.

NRCB will categorize the remaining CFOs as potentially low-risk for groundwater and will not assess these CFOs using the risk screening tool.

### Conduct appropriate testing to confirm the validity of assigned risk levels—implemented

NRCB has tested its risk assessment tools to confirm that they are well-designed. NRCB has also tested its risk categorization process used to classify CFOs by priority levels of risk to groundwater. NRCB selected a sample of 18 CFOs to test the risk screening tool in the field and confirm whether the preliminary screening effectively identifies potential groundwater risk. To do this, NRCB identified 16 CFOs rated as potentially high groundwater risk, and added two low groundwater risk CFOs as control sites. At the conclusion of our audit, NRCB had completed assessments using the risk screening tool at 13 CFOs and was working on the remaining five.

The results suggest that the preliminary screening effectively identifies groundwater risks.

NRCB also used its assessment of 234 CFOs under the leak detection program to confirm that groundwater vulnerability mapping is an accurate way to categorize facilities with earthen manure storage systems.

To improve its understanding of groundwater risk, NRCB is partnering with the Department of Agriculture and Rural Development in a long-term study of the effects of manure storage on groundwater quality under different hydrogeological conditions.

### Select and deliver appropriate compliance and enforcement action—satisfactory progress

In our *October 2007 Report* (page 168), we observed that NRCB had not defined what constituted a serious contravention requiring further enforcement. NRCB has now defined this in its compliance and enforcement policy.

We also noted in 2007 that a significant number of CFO operators who were required to send groundwater monitoring reports to NRCB had failed to do so. NRCB needs this information to ensure that CFO operators comply with groundwater monitoring and reporting conditions outlined in their permits.[4]

In our current follow-up, we found that NRCB has significantly improved its groundwater monitoring program and has assessed all 234 CFOs that have groundwater monitoring conditions in their permits. By the end of our audit, NRCB had completed the assessments and was amending permits for these CFOs as needed.

As part of its compliance and enforcement program, NRCB plans to use the groundwater section of its risk screening tool to assess the 172 CFOs identified during the categorization process. These assessments include visits to CFOs and examination of structures. By the end of our audit, NRCB had completed 13 assessments and planned to perform the remaining assessments at a rate of approximately 25 risk screenings per year.

NRCB needs to develop a system to periodically follow up on those sites that are categorized as potentially high-risk to groundwater, to detect if risk levels have changed as a result of operational changes.

To fully implement this part of our recommendation, NRCB needs to:

- monitor and enforce compliance with the new groundwater monitoring and reporting conditions
- complete the assessments planned for the potentially high-risk CFOs for the first one-year cycle
- develop a system to periodically follow up on CFOs as potentially high risk to groundwater

## Surface water risks

### Background

In our *October 2007 Report* (vol. 2—page 167), we indicated four elements of a risk-focused compliance model:

- define, through research, the environmental risks applicable to CFOs and their impact
- categorize CFOs by priority levels of environmental risk at different locations
- conduct appropriate sampling and testing to confirm the validity of assigned risk levels
- select and deliver appropriate compliance and enforcement action

When we made our recommendation in 2007, we intended for it to cover both groundwater and surface water risks. However, NRCB interpreted our recommendation as being solely for groundwater risks, as many of our observations were about groundwater. We detected this difference in interpretation when we began our current follow-up. NRCB's system for assessing

4 The *Agricultural Operation Practices Act* requires operators to obtain a permit from NRCB to develop and operate a CFO, before setting up the operation. Chapter A-7, RSA 2000

surface water risks differs from its risk-based compliance program for groundwater.

Some environmental risk factors for CFOs are not likely to change, while others may change over time. For example, soil type, distance and slope to surface water bodies are not likely to change. On the other hand, a change in the type and number of animals, inadequate maintenance of manure run-off controls, new construction or changes to existing structures may all contribute to changes in a CFO's surface water risk level. Overall, risk factors for surface water are more likely to change than are those for groundwater.

*AOPA* establishes standards for CFO structures to prevent contamination of surface water, but only up to a certain level of risk. For example, a catch basin must have a storage capacity that can accommodate at least a one-day rainfall that has a one in 30 year probability.[5] More severe rainfall events may result in surface water run-off at CFOs.

## Recommendation: surface water risks

**RECOMMENDATION NO. 2**

We recommend that the Natural Resources Conservation Board demonstrate that its compliance approach is adequate in proactively managing surface water risks.

## Criteria: the standards for our audit

In a program designed to detect significant surface water risks before contamination occurs, we expect to see tests to demonstrate that the approach will work as planned.

## Our audit findings

Key Points

- NRCB needs to demonstrate that its approach to surface water risks will be adequate
- Current compliance approach to surface water contamination is reactive, not proactive

Through research, NRCB developed a screening tool for assessing and ranking CFOs as high, medium or low risk for surface water contamination. The risk screening tool identifies and quantifies key risk factors. For example, risk factors for surface water include the type and amount of manure produced, distance and slope to nearby water bodies, soil type and texture, type and condition of manure run-off barriers, and certainty of available information.

The focus of NRCB's risk-based compliance program is groundwater. If staff identify a potential surface water issue at these sites, they may also complete the surface water section of the risk screening tool. However, NRCB does not plan to use the tool to systematically assess CFOs by levels of environmental risk for surface water. Nor does it plan to conduct periodic sampling and testing of CFOs for surface water risk.

During this follow-up audit, NRCB asserted several reasons for its decision not to use a risk-based compliance program for surface water:

- Surface water issues at CFOs are readily visible to both operators and the public.
- Surface water issues are more likely to result from open feedlots than from CFOs, where animals are contained in barns and/or when liquid manure is stored in lagoons or other structures.
- NRCB staff have a good understanding of the surface water risks associated with the 50 largest feedlots, which represent 60% of the feedlot feeding capacity in Alberta. They also asserted that they randomly selected, from a stratified sample, 10 additional operations and concluded that they had familiarity with these sites.
- Each year, NRCB receives about 100 complaints related to surface water.
- There is a strong correlation between complaints involving surface water during spring runoff and during periods of significant precipitation.
- Mapping of potential surface water risks is unavailable at a scale appropriate to incorporate into a formal compliance program.

5 *Agricultural Operation Practices Act, Standards and Administration Regulation,* Section 19(2)

NRCB also indicated it plans to:

- test and verify its response to surface water risk issues when responding to complaints
- use precipitation data to identify areas where unusually high amounts of precipitation can lead to runoff impacts on surface water quality, and be extra vigilant when responding to complaints in those areas

This primarily reactive approach means NRCB will take action only after surface water contamination has occurred. While management anticipates a sizeable number of complaints, NRCB has no way to measure whether the public is identifying a significant portion of serious surface water risks. Although NRCB plans to instruct field staff to monitor areas that receive unusually high amounts of precipitation, it has not defined how it plans to implement this initiative.

NRCB's recent application of the risk screening tool shows that surface water risks may exist in some CFOs. As mentioned in the previous section, NRCB is testing the validity of its preliminary risk screening process for groundwater with a sample of 18 CFOs. When completing these assessments, it also completed the surface water section of the risk screening tool. By the end of our audit, NRCB had completed 13 of these assessments. We examined eight of these assessments. In our sample, three out of eight CFOs had structures rated medium or high for surface water risk.

In addition, in response to our 2004 recommendation (*October 2004 Report*, no. 28—page 294), NRCB performed one-time proactive inspections on about 15% of all CFOs. During our 2007 follow-up audit, we examined a sample of the inspection reports for 30 CFOs. Of the CFOs in our sample, eight CFOs had 15 contraventions, as identified by NRCB inspectors. Our review of file details shows that three of these contraventions directly impacted surface water risk and another four may have impacted surface water risk.

Although NRCB requires operators to report all changes and contraventions, NRCB's compliance files show that not all such changes or contraventions are reported. As a result, the CFO risk level may change without NRCB's knowledge, particularly if the operator fails to follow proper site management practices, does not maintain manure containment structures adequately or makes unapproved modifications or new construction at the CFO facilities.

NRCB management does not plan to perform a preliminary assessment of all CFOs for surface water risk. NRCB investigated the use of surface water mapping as a tool for preliminary assessment of CFOs for such surface water risk factors as proximity to water bodies, soil type, terrain and land slope. NRCB concluded that electronic based surface water mapping has not progressed sufficiently to allow NRCB to effectively identify potential "at-risk" common bodies of water.

As is the case with groundwater, a preliminary assessment for surface water does not have to include all risk factors. For example, management asserted to us that surface water issues are more likely to occur in open feedlots. From its files, NRCB could obtain information on the type of operation and the size of CFOs. The proximity of a CFO to surface water bodies could be obtained using publicly available, off-the-shelf satellite image software. While this method does not show slope or natural run-off barriers in the terrain, it could be an efficient first step at screening out CFOs that are obviously low risk, and focusing on those that could be higher risk.

### Implications and risks if recommendation not implemented

If NRCB's processes to identify and mitigate surface water risks are not working properly, contamination that is otherwise preventable may occur. Once surface water contamination occurs, treatment can be costly and of uncertain effectiveness.

# Other Follow-up Audit Work

## Contract for a province-wide forestry radio system—implemented

### Background

In 2002, the Department of Sustainable Resource Development (Department) entered into a contract to develop a province-wide radio system. The Department had to renegotiate the contract with the contractor because of financial issues experienced by the contractor. Our key finding was that the Department did not adequately consider financial risks when entering into this contract.

In our *October 2003 Report* (page 277), we recommended that the Department follow the government's best practice guidelines for contracted services and grants when undertaking major capital or long-term lease projects.

In our *October 2007 Report* (vol. 2—page 164), our progress report indicated that although the Department had created a contract user manual, it did not include all of the elements covered in the government's best practice guidelines.

### Our audit findings

The Department completed its revision of the *Contract User Manual* (manual) in 2009. The manual now includes:

- the government's best practice guidelines for contracted services
- guidance as to when staff should assess the financial stability of contractors

The Department also provided us with additional questions they plan to require staff to answer about the financial stability of contractors, as part of the contract approval process

In addition, the Department revised its contract business case form to improve documentation of its analysis of the alternatives, operational impacts, risks, costs and benefits associated with contracts. The Department does not often have contracts where it is developing a new asset by having a contractor build it for them or having a contractor supply the asset through a lease agreement with the Department. Should these types of contracts arise, we will continue to review the Department's implementation of this process as part of the financial statement audit.

## Project management for contracts—implemented

### Background

Beginning in October 2003 and continuing until March 2006, the Department entered into a series of 11 contracts, totalling $769,743, with the expectation of developing a geographic information management strategy. When the Department selected the contractor, they used a sole source selection process—they didn't ask any other consultants to bid on the contract. All 11 contracts were awarded to the same consultant. We also found that other contractors were not considered for any part of the development once it was under way. Nor could we find written evidence that the Department evaluated the work of the contractor at the project milestone dates. On four of the contracts, the original amounts were increased through amendments totalling $142,000.

In our *October 2007 Report* (page 165), we recommended that the Department show clearly, throughout a project, that repeated contracting with the same contractor is a cost-effective way to achieve that project's desired outcome.

### Our audit findings

Key Point

The Department's processes have been designed appropriately

The Department revised its *Contract User Manual* and the forms that support contracts.

Both the manual and the contract coversheet form now require staff to document the justification

for sole-source contractor selection and reasons for any amendments. For any contract where a sole-source selection has been used, the contract business case form must be signed by at least one level of staff senior to the staff level authorized to sign for a completed contract. The Department also plans to periodically have the Department's executive review repeat vendors that have been hired for non-emergency purposes.

The manual now sets out staff requirements for monitoring and administering contracts to ensure that work is proceeding according to contract terms and that progress billings, if any, relate to the work performed to date. The Department has also implemented a contract evaluation form that requires the staff managing the contract to document whether the contractor met all of the interim benchmarks and all of the contract deliverables.

## Reforestation—seed inventory—implemented

### Background

In 2006, we performed an audit of the systems used by the Department to monitor and enforce reforestation standards. Our objective was to determine whether the Department had adequate systems in place to ensure reforestation goals and objectives were met.

We made five recommendations to the Department in our *October 2006 Report* (vol. 1—pages 109–132) and subsequently followed up on all five of these recommendations in 2008. We reported our follow-up findings in our *April 2009 Report* (pages 49–61).

In respect to the seed inventory recommendation (in our *October 2006 Report,* vol. 1—page 129), we concluded that there was satisfactory progress as of our *April 2009 Report*. However, the Department was in the process of completing the following activities to fully implement the recommendation:

- documenting other sources of seed availability, for seed zones where management identified a shortage of seed supply, based on its forecast or operator harvest plans
- completing nursery site inspections and concluding which additional measures are necessary to ensure that seed-zone integrity is maintained between the Seed Centre and planting in the seed zone

During the current audit we followed up on the above two activities only.

### Our audit findings

Key Point

The Department has completed documentation of seed availability and its seed risk management process and has completed the nursery on-site inspections

The Department categorized the current seed inventory into three risk categories: high, medium and low. For the high-risk categories, management requested and obtained action plans from the relevant operators. These operators incorporated the action plans into their annual operating plans. The forest supervisors and head office management monitor adherence to these plans. For inventories assessed as low or medium risk, the Department's management has contacted, and will continue to contact, relevant operators to find out the real risk level, given the operators' future harvesting operations. The Department plans to perform this analysis and report on the results annually. For any seed supply that may shift to the high-risk category, the Department will obtain remedial action plans from the relevant operators to mitigate this risk.

The Department also audited all 15 nurseries that currently have custody of the seedlings. These nurseries have implemented seedlot tracking systems to ensure they control the seeds from the inventory to planting in the seed zone.

AUDITOR GENERAL
*Alberta*

# Financial Statement Audits and Other Assurance Work

Report of the Auditor General of Alberta—April 2011

## Note to reader

In 2009 and 2010, we reported our recommendations to the Department of Advanced Education and Technology and Alberta's post-secondary institutions under three broad themes. To maintain continuity with previous reports, we report our findings under these themes, on the following pages:


- Improve periodic and year-end financial reporting ..... 67
- Preserve endowment assets ..... 69
- Improve internal control systems ..... 70


Our current findings and recommendations for specific institutions are on the following pages:


- Department of Advanced Education and Technology ..... 67
- Alberta College of Art and Design (ACAD) ..... 69, 70
- Grande Prairie Regional College ..... 69
- Grant MacEwan University ..... 68, 69, 75
- Keyano College ..... 76
- Lakeland College ..... 69, 79
- Lethbridge College ..... 69
- Medicine Hat College ..... 68, 70, 80
- Mount Royal University ..... 69
- Northern Alberta Institute of Technology (NAIT) ..... 81
- Olds College ..... 68, 69, 70, 81
- Portage College ..... 68, 69, 82
- Red Deer College ..... 83
- Southern Alberta Institute of Technology (SAIT) ..... 70

# Advanced Education and Technology

## Summary

### Department of Advanced Education and Technology

In our *April 2010 Report* (page 158), we recommended that the Department of Advanced Education and Technology work with post-secondary institutions to develop guidelines for enterprise risk management. We also made recommendations to several institutions to improve their risk management systems. The Department created the Campus Alberta Risk and Assurance Committee to oversee the development of guidance for institutions on enterprise risk management. Some institutions have also made progress with implementing our recommendation for enterprise risk management—see page 67.

### Entities that report to the Minister

Once again, we report our recommendations to Alberta's colleges, technical institutes and universities under themes highlighted in our *April 2009 Report*, page 75 and *April 2010 Report*, page 151. We reported to each institution's management on internal control weaknesses identified in our financial statements audits. Well-designed and effective internal controls are critical for institutions to meet goals, safeguard assets and reduce the risk of fraud and error.

We have not yet audited the financial statements of Northern Lakes College, as management has experienced significant difficulty in completing the financial statements and providing us with sufficient supporting documentation. We will include the results of this audit in our October 2011 report.

We made four new recommendations to Alberta College of Art and Design (ACAD) which reflect the challenges it continues to face in maintaining sound and sustainable internal control systems. These systems are important in helping ACAD conduct well-controlled business operations, effectively and efficiently meet goals, safeguard assets and produce reliable financial information.

This year, we make 10 new recommendations to individual institutions, and repeat four, under three themes from our previous reports:

- improve financial reporting—provide timely, relevant and accurate financial reports to senior management and board audit committees—see page 67
- preserve endowment assets—define goals for using and preserving the economic value of endowments—see page 69
- improve internal control systems—improve internal controls to safeguard assets such as cash, limit information systems access to appropriate staff, clarify and segregate roles and responsibilities of staff, review and approve transactions to ensure they are valid and reasonable, and reconcile financial records promptly to ensure complete revenue recognition and valid financial information—see page 70

### Improve periodic and year-end financial reporting

Timely, relevant and accurate financial information is essential to running any institution. Boards and audit committees need to receive regular summaries of that information to effectively oversee and assess management's overall performance.

We recommend that Olds College improve its processes and controls over year-end financial reporting—see page 68. We repeat our April 2010 recommendation to Portage College to improve financial reporting to its board and senior management by providing, at least quarterly, complete statements of financial position and actual year-to-date operating results—see page 68.

Grant MacEwan University has implemented our 2010 recommendation to improve financial reporting to its board and senior management. Lakeland College has implemented our recommendation to improve its processes and controls over financial reporting.

Medicine Hat College's board reviewed its financial information and concluded they are satisfied with the level of reporting. We note that Medicine Hat College's board is not receiving the level of interim financial reporting that boards at other post-secondary institutions receive. We will continue to monitor any improvements the College makes to its financial reporting. See page 68.

## Preserve endowment assets

In Alberta, public colleges, technical institutes and Grant MacEwan and Mount Royal universities have more than $100 million of endowment funds. Earnings from these funds support education, research and teaching. While some donors encourage spending endowment investment earnings, others expect institutions to preserve the real value of endowments over time. In our *April 2009 Report* (page 78), we recommended that several institutions define their goals for using and preserving the economic value of endowment assets.

Grande Prairie Regional College, Lethbridge College, Medicine Hat College, Mount Royal University and Olds College have implemented a similar recommendation—see page 69. For those institutions that have not yet implemented our recommendations on endowments, we will report the results of their progress to implement the recommendation in their individual sections in future reports, instead of collectively reporting under the theme of preserving endowment assets.

## Improve internal control systems

In *our April 2010 Report* (page 151), we reported on internal controls over payroll, payment for goods and services, revenue collection, bookstores, and the cost of hosting guests or internal working sessions, sponsoring events and making donations. We recommend that ACAD:

- establish policies and guidelines for its professional development fund—see page 71
- develop, implement and enforce a code of conduct, conflict of interest and fraud policies—see page 72
- improve its processes for the set-up and approval of fees and courses delivered under the extended studies program—see page 73
- improve its controls over the set-up, maintenance and monitoring of its vendor master list—see page 73

In our *April 2010 Report* (page 173), we reported that Grant MacEwan University had taken steps to improve its control environment and resolve its information technology, processes and staff issues. In our *October 2010 Report* (page 29), we reported that the University still needed to develop manual processes and controls for the remaining phases before implementing its enterprise resource planning system. The University has updated and implemented new policies over the past year. The University is also implementing the enterprise resource planning system, which it anticipates will be fully operational in 2010–2011. The University must still ensure it implements well-designed processes, then train and monitor staff to make sure they follow the policies and processes.

Grant MacEwan University has implemented our November 2006 recommendation to establish a policy clearly indicating it will not solicit or accept donations with participating vendors during a tendering process—see page 76.

Keyano College should:

- improve access control policies and processes for its information systems to ensure that:
  - user access to the College's networks and application systems is disabled when an employee leaves their employment
  - all user access to the College's computer networks and systems is properly authorized and all staff and contractors, comply with the College's computer use policy—see page 77
- develop a policy and processes for monitoring and investigating breaches of security to its information systems—see page 78

Lakeland College should enhance its code of conduct processes and require all employees to reconfirm compliance with the code of conduct regularly—see page 79.

We also repeat our April 2009 recommendation to Lakeland College to:

- adequately segregate access to the PeopleSoft payroll system—see page 79
- ensure management review change reports generated from the payroll system for appropriateness—see page 79

Medicine Hat College should improve its controls over cash, accounts receivable and accounts receivable write-offs related to tuition by:

- adequately segregating incompatible functions of preparing daily cash receipts, processing accounts receivable and accounts receivable write-offs
- requiring registration clerks to use cash count sheets for controlling cash handling and reconciling cash handovers to the student accounts clerk—see page 80

Northern Alberta Institute of Technology has implemented our April 2010 recommendation related to purchasing guidelines—see page 81.

We repeat our April 2010 recommendation to Olds College to improve internal controls in the bookstore to sales and inventories. See page 81.

Portage College should improve the accuracy of its perpetual inventory system at the bookstore—see page 82.

Red Deer College has implemented our April 2010 recommendation to improve its controls over payroll—see page 83.

## Findings and recommendations

# Department of Advanced Education and Technology
# Improve enterprise risk management systems—progress report

### Background

Effective enterprise risk management systems give boards and senior management relevant and timely information on significant strategic, business, operational and financial risks. This allows boards, often through their audit committees, to effectively oversee the systems that management uses to assess risks, identify changes and manage them appropriately. ISO 31000[1] is an internationally recognized framework of principles and guidelines that help organizations manage risks.

In our *April 2010 Report* (page 158), we recommended that the Department of Advanced Education and Technology work with post-secondary institutions to identify good practices and guidelines for enterprise risk management.

### Management's actions

The Department and post-secondary institutions created the Campus Alberta Risk and Assurance Committee to oversee guidance for enterprise risk management. The Committee has:

- organized a training session for all institutions
- provided training on ISO 31000 to several institutions, and plans more training for 2011
- developed an agreement that institutions can use to form partnerships with other post-secondary institutions or organizations to assist in an emergency

The University of Alberta, Grant MacEwan University, Northern Alberta Institute of Technology and NorQuest College have signed an agreement to share facilities and equipment if a disaster occurs at any of their institutions.

# Entities that report to the Minister
# Improve periodic and year-end financial reporting

### Background

In our *April 2010 Report* (page 160), we recommended to several institutions that they provide relevant and timely financial reporting to senior management and audit committees. Our recommendations focused on providing complete financial statements of financial position and actual year-to-date operating results, at least quarterly. We had repeated our recommendation to Medicine Hat College from our *April 2009 Report* (page 96).

1 www.iso.org

## Advanced Education and Technology

We also recommended in our *April 2010 Report* (page 162) that Lakeland, NorQuest, Olds and Portage colleges improve, to varying degrees and for various reasons, their processes and controls for efficient and accurate financial reporting.
We repeated a recommendation from our *April 2008 Report* (page 180) to Alberta College of Art and Design (ACAD) to improve its processes and controls for efficient, complete and accurate financial reporting.

### Recommendation: improve periodic financial reporting

**RECOMMENDATION REPEATED**

We again recommend that Portage College improve financial reporting to its board and senior management by providing—at least quarterly—complete statements of financial position and actual year-to-date operating results.

**RECOMMENDATION**

We recommend that Olds College improve its processes and controls over year-end financial reporting.

### Criteria: the standards for our audit

Institutions should have effective systems to produce timely, relevant and accurate periodic and year-end financial information and financial statements. This includes clear policies and procedures, knowledgeable staff, clear roles and responsibilities, and monitoring and review processes.

### Our audit findings

**Key Points**

- Recommendation repeated for Portage College
- Olds College had difficulty preparing accurate and timely financial statements
- Grant MacEwan University has improved its financial reporting
- Lakeland College has improved its year-end processes
- Medicine Hat College's board is satisfied with level of reporting it receives
- ACAD and Portage College are making satisfactory progress to improve year-end processes

#### Relevance of interim financial reports
#### Portage College—repeated

We repeat our recommendation to Portage College because it did not improve its processes to produce quarterly financial reports. The College still does not provide the board with statements of financial position and changes in net assets as part of its quarterly financial reports. In addition, the statement of operations still does not include actual year-to-date results or comparative information to allow committee members to assess results of operations, reasonability of annual forecasts, and changes from last year's results.

The following are the results from our follow-up audits of financial reporting at these institutions:

#### Grant MacEwan University—implemented

The University included additional information in its quarterly financial statements to senior management and the board's finance and audit committee, as well as explanations for significant variances between year-end forecasts and annual budgets.

#### Medicine Hat College—implemented

Since receiving the recommendation in 2009, College management improved its overall financial reporting process by presenting to the board a third-quarter forecast of revenues and expenses to June 30, 2010, to update the mid-year review report. The board reporting package has been enhanced to include discussions on major variances, trending information of expenses and revenues, changes to capital expenses, and projected unrestricted and restricted net assets.

Notwithstanding these improvements, we note that the College's board is not receiving the level of interim financial reporting that a board-governed post-secondary institution typically receives. Management stated that at the time of our audit, given the current resource constraints and information systems challenges, they did not produce complete quarterly financial statements. They acknowledged the importance of good information for their board and will routinely

respond to requests for additional information if the board asks for it. Management plans to continuously improve its financial reporting process. However, it has not developed long-term plans to improve the completeness of interim financial reports to the board. The board assessed our audit recommendation at its October 27, 2009 meeting and concluded that it is satisfied with the current level of reporting, acknowledging that forecasts are based on reasonable estimates.

Given management's limited capability in the current economic environment to produce complete interim financial reporting using existing college resources and information systems, we have deemed the recommendation to be implemented. However, in future audit cycles, we will continue to follow up management's plans to improve their financial reporting process, and look at accuracy of their forecasting system.

### Systems to prepare year-end financial statements

#### Olds College

Olds College had not completed its financial statements and working papers at the start of our audit on September 7, 2010. Management's quality control and review processes had not identified problems with the financial statements and supporting documentation before the start of the audit. We brought this to the attention of the vice president of student and support services, and withdrew our staff from the audit. We were able to restart our work on October 12, 2010, after the College was able to complete the financial statements and working papers.

Following are the results from our follow-up audits of systems for preparing financial information at these institutions:

#### Alberta College of Art and Design—satisfactory progress

ACAD made significant improvements to its financial reporting and year-end processes for its June 30, 2010 financial statements. We found substantial improvements in the quality of ACAD's working papers and a notable decline in working paper errors compared to 2009. Also, the draft financial statements required fewer revisions when compared to the previous year. ACAD's senior vice president of finance and corporate services also reviewed the draft financial statements before they were ready for audit. Despite improvements, some issues remain. For example, we noted two instances where transactions totalling $450,000 for 2010 were incorrectly recorded in 2011.

#### Lakeland College—implemented

Lakeland College has improved its year-end procedures.

#### Portage College—satisfactory progress

Portage College is improving its processes and controls over financial reporting, with the goal of increasing efficiency in preparing accurate internal and external financial reports. We saw improvement in the completeness of the working papers management provides to support the numbers in the year-end financial statements. Despite these improvements, the first draft of the financial statements contained several errors and we did not receive the complete financial statements until halfway through the audit.

## Preserve endowment assets

### Background

In our *April 2009 Report* (page 78), we recommended that Alberta College of Art and Design, Grande Prairie Regional, Keyano, Lakeland, Lethbridge, Medicine Hat, NorQuest, Olds, Portage and Red Deer colleges and Mount Royal University define their goals for using and preserving the economic value of endowment assets. In our *April 2010 Report* (page 171), we reported that Keyano, Lakeland, NorQuest, Portage and Red Deer colleges had implemented our recommendation.

In our *April 2010 Report* (page 170), we also recommended that:

- Grant MacEwan University improve its endowment and related investment policies and procedures by:
  - establishing and reviewing a spending policy for endowments

  - improving its processes to review its endowment related investments
  - improving its reporting of investments and endowments to the audit and finance committee
- Southern Alberta Institute of Technology (SAIT) clarify its expectations for preserving the economic value of its endowment assets and document an endowment policy for managing endowment earnings

Institutions should clarify if and how they plan to protect the value of endowments, fund current and future spending from investment income, and fund expenses in years when there are investment losses. They should also have systems to track investment income between these categories, and record investment income in accordance with accounting principles.

### Criteria: the standards for our audit

Institutions should establish goals and performance measures for preserving endowments and should have administrative policies and processes that help meet their goals.

### Our audit findings

Key Points

- ACAD and Grant MacEwan University are still drafting new endowment policies and procedures
- Grande Prairie Regional, Lethbridge, Medicine Hat and Olds colleges and Mount Royal University have implemented recommendations for preserving endowment assets

The following institutions have implemented the recommendation:

- Grande Prairie Regional College determined it is in the College's best interests not to inflation-proof investments unless specifically requested to do so by the donor. The board approved investment policies that include discussing the intent and procedures for preserving the economic value of endowment investments.
- Lethbridge College updated its investment policy to include objectives for inflation-proofing endowments, and to determine the annual spending rates.
- Medicine Hat College revised its donations and fundraising general administration policy to outline endowment goals and provide for inflation protection on endowment assets. Management also tracks whether donors request inflation-proofing on their endowments.
- Mount Royal University approved a new endowment management policy. Management will decide annually the most appropriate use of unspent investment returns, based on a review of factors including the economic environment. The University will use the Alberta consumer price index as a guiding principle if it decides to inflation-proof the endowments over the long term.
- Olds College updated its investment policy to include objectives for inflation-proofing endowments, and to determine annual spending rates.
- SAIT revised its endowment policy to outline the goals and objectives, and guidelines for allocating funds. SAIT also clarified the investment committee's role in determining the annual funding allocation, and the required administrative practices that should be implemented.

ACAD and Grant MacEwan University are still drafting new investment and endowment policies and procedures.

## Improve internal control systems

### Alberta College of Art and Design

Alberta College of Art and Design (ACAD) is one of Alberta's smaller post-secondary institutions, with about 1,200 students. Our four new recommendations to ACAD reflect the challenges it continues to face in maintaining sound and sustainable internal control systems. These systems are important in helping ACAD conduct well-controlled business operations, effectively and efficiently meet goals, safeguard assets and produce reliable financial information.

## Policy for managing professional development funds

### Background

ACAD operates a professional development fund with an annual budget of $250,000 to be used for college-wide professional development, such as attending courses. In 2010, ACAD spent approximately $108,000 from this fund—$47,000 for 46 faculty staff, $51,000 for five executive employees and $10,000 for administrative staff.

### Recommendation: professional development fund

**RECOMMENDATION**

We recommend that Alberta College of Art and Design establish policies and guidelines for the management of its professional development fund.

### Criteria: the standards for our audit

ACAD should establish policies that clearly communicate the:

- objectives and purpose of the professional development fund
- nature and type of professional development initiatives to be funded, including the benefits and relevance to the College
- qualifying and eligibility criteria for funding

Management should also provide guidance such as standards and practices that apply to all employees who wish to access the professional development fund.

### Our audit findings

Key Points

- No policies or administrative practices on the fund's purpose, application and approval criteria and processes
- Inconsistent payment processes for executive and other staff

ACAD does not have clear policies, guidelines and practices that prescribe the:

- purpose of the fund
- nature and type of professional development initiatives to be funded under the program, including relevance and benefits to the College
- criteria for qualifying for funding, as well as the procedures for applying and accessing funding from this fund

At the board of governors meeting on May 26, 2010, the president acknowledged that not all staff had access to this fund. He also indicated that management would develop a terms of reference to allow staff to understand the fund's use, along with how to apply for the funds. However, at the conclusion of our audit fieldwork, ACAD had not established the anticipated terms of reference.

In 2010, executive staff incurred approximately $49,000 for international courses and seminars. We found no criteria, guidelines or documentation to show the process ACAD followed for approving requests by certain staff to attend international courses.

In addition, ACAD applied inconsistent practices for accessing, applying for and paying for professional development funds. For example, faculty staff paid for their courses and claimed a reimbursement upon completion or conclusion of the course or event. However, for executive staff, ACAD paid the expenses, including related travel advances, in advance of the course or seminar.

### Implications and risks if recommendation not implemented

In the absence of clear policies and procedures, ACAD might not manage its professional development funds in an efficient, effective and equitable manner.

## Code of conduct policy and conflict of interest policies

### Background

In 2009, ACAD's board of governors approved and adopted 22 policies for college-wide use. Included in these policies was a code of conduct

and a conflict of interest policy that applied to board members.

In August 2010, ACAD hired a consultant to review and update its policies and procedures to reflect best practices, to draft new policies and procedures where necessary, and to ensure its procedures are aligned to policies the board approved in 2009. The work was scheduled to be completed in two stages, the first set for completion by December 2010, and the remainder by December 2011.

## Recommendation: code of conduct, conflict of interest and fraud policies

**RECOMMENDATION**

We recommend that Alberta College of Art and Design:

- develop, implement and enforce policies for code of conduct and conflict of interest
- develop and implement a fraud policy that clearly defines actions, responsibilities, authority levels and reporting lines in case of fraud allegations

## Criteria: the standards for our audit

ACAD should define, communicate and enforce codes for acceptable business practices, to ensure a sound control environment. Specifically, ACAD should:

- have an enforceable code of conduct for all employees
- enforce compliance with policies and procedures
- have a policy for responding to fraudulent or suspected fraudulent behaviour or irregularities involving employees or other parties with a business relationship with ACAD

## Our audit findings

Key Points

- Code of conduct for board members but not for employees
- No policy for dealing with suspected fraud and irregularities

While we acknowledge the actions taken by management, we also found the following:

*Code of conduct and conflict of interest policy*

ACAD's code of conduct does not apply to its employees. The code of conduct for the board of governors does not require annual sign-off by board members as an acknowledgement of their compliance with its terms.

ACAD's conflict of interest policy requires board members to annually confirm their compliance with the policy, in writing. We found no evidence of board members having confirmed their compliance with the policy.

*Fraud policy and a process to investigate complaints*

ACAD does not have a formal fraud policy. Nor was a fraud policy included in policies proposed for development by the consultant. A fraud policy would prescribe how to deal with alleged fraud, including assigning responsibility for investigating suspected fraud or irregularities within ACAD and reporting these to the finance and audit committee. Although no fraud was noted in 2010, ACAD previously had an incident of fraud.

ACAD lacks policies and guidelines for investigating and resolving complaints. As a consequence, ACAD does not have a formal mechanism for investigating complaints of suspected fraud or irregularities involving employees, vendors, contractors or other parties that have a business relationship with ACAD. ACAD should consider these issues when developing the safe disclosure or whistle blower policy it requested its consultant to prepare. Also, the fraud policy should be aligned to the board's code of conduct, conflict of interest and safe disclosure policies, as well as the detailed procedures that are currently being developed.

## Implications and risks if recommendation not implemented

In the absence of well-developed policies and procedures, ACAD's operations may not be conducted in an efficient and effective manner.

Without a fraud policy, ACAD may not have a consistent approach to recording, investigating and referring suspected fraud and abuse to the authorities.

## Extended studies program—setup and approval of fees and courses

### Background

ACAD's extended studies unit offers non-credit courses. In 2010, the extended studies program generated $900,000 in course fees, representing a 5% increase from the $854,000 earned in 2009.

### Recommendation: controls over extended studies program

**RECOMMENDATION**

We recommend that Alberta College of Art and Design improve its processes for the set-up and approval of fees and courses delivered under the extended studies program.

### Criteria: the standards for our audit

ACAD should have effective controls over the set-up and approval of fees and courses in its extended studies program. This includes the proper segregation of activities and an independent review of changes in fees and courses.

### Our audit findings

Key Point

No independent review of processes over extended studies program

ACAD does not have an effective control to review the set-up and approval of fees and courses in its extended studies program. There is also improper segregation of functions; the director of extended studies proposes, sets up and approves all courses for inclusion in this program. The director also establishes the course fees and has the sole authority for proposing and approving revisions to courses and fees. Although the director had the authority to set fees, we saw no independent review of the changes to the courses and fees that the director processed.

### Implications and risks if recommendation not implemented

Without adequate separation of functions and independent review of changes to the extended studies program fees and courses, ACAD may not earn the appropriate level of fees, and the risk of fraud increases.

## Vendor records

### Background

ACAD uses a customized computer application as a point of sales system to process and generate purchase orders, as well as to record and maintain vendor information in a master list. The majority of ACAD's vendor activities relate to its bookstore.

Common controls in a good control environment include having designated an appropriate level of employee who reviews, approves and makes changes to vendor records. This will mitigate the risk of fraud or unauthorized changes to the vendor records.

### Recommendation: controls over vendor master file set-up and maintenance

**RECOMMENDATION**

We recommend that Alberta College of Art and Design improve its controls over the set-up, maintenance and monitoring of its vendor master list.

### Criteria: the standards for our audit

ACAD should have effective controls over vendor records, including segregating incompatible job duties to set up, approve, maintain and monitor the vendor master listings.

### Our audit findings

Key Point

Incompatible duties not properly segregated or subject to appropriate independent review

The responsibilities for day-to-day maintenance, updating, monitoring and reviewing of the vendor master list are not properly segregated and are not subject to proper approvals. For example,

the bookstore supervisor has the ability to initiate and approve changes to the list without a second level of review or approval. As well, there is no requirement for a regular review of the vendor master list by a person who is independent from the one who maintains the vendor master list.

Management stated that changes to the vendor master list are controlled through the review and approval of purchase orders by the director of ancillary services. This review ensures that purchases and, therefore, any additions to the vendor master list are appropriately approved. However, approval of purchase orders does not consistently occur before goods are delivered. We noted instances where purchase orders or requisitions were issued only after goods had been received or upon receipt of suppliers' invoices.

### Implications and risks if recommendation not implemented

Without strong controls over the maintenance of vendor records and the vendor master list, there is an increased risk that inappropriate transactions might occur and go undetected.

## Bookstore operations—satisfactory progress

### Background

In our *April 2010 Report* (page 181), we recommended that ACAD maintain an effective system of internal controls to enhance the integrity of its bookstore operations. We highlighted the following internal control deficiencies:

- inadequate inventory management and control system, absence of controls and procedures to periodically reconcile inventory records to actual inventory and to approve inventory write-offs
- absence of policies and procedures for pricing and marking up goods, processing refunds and write-offs, and lack of proper segregation of duties
- poor system access controls; for example, use of same log on password and username by bookstore operators, absence of access privileges based on work to be performed by staff, and absence of controls to prevent unauthorized access to the bookstore safe and attractive assets

### Our audit findings

Key Points

- Improvements made to inventory management and control systems, and pricing policies
- Access controls still need improvements

ACAD has acted on two of the three deficiencies we identified. It is working with the system vendor to build adequate access controls into the bookstore system. As a result, we concluded ACAD has made satisfactory progress with implementing our recommendation. We noted the following control improvements:

- The bookstore access database produces a variance report that management compares to the bookstore's actual year-end inventory count. The director of facility and ancillary services reviews and authorizes variances before passing the information to the director of finance for approval and recording.
- In July 2010, ACAD adopted a pricing policy that has guidelines for setting up prices and markups for bookstore merchandise. Further, the bookstore supervisor now approves all returns processed by the cashier.
- In July 2010, ACAD updated the bookstore's procedures for processing transactions. In addition to a password, the cashiers and bookstore operators are now assigned a unique code for processing any transaction in the bookstore system. This control helps track transactions to the person who initiates them.

Despite these improvements, the access controls are not operating effectively. All bookstore operators use the same username and password to log onto the bookstore database, and there are no access restrictions depending on the functions that operators should perform. Consequently, any operator could view and extract the code assigned to other bookstore operators and could potentially use the code to process a transaction through the system.

To fully implement this recommendation, ACAD must:

- assign usernames, passwords and codes that are unique to each bookstore operator, to strengthen system access rights and restrictions
- institute system access privileges that limit operators' access to components of the database that are relevant to their assigned responsibilities, to effectively segregate functions

### Implications and risks if recommendation not implemented

The absence of an effective system of internal controls impairs the integrity of transactions processed in the bookstore system and exposes ACAD to a risk of loss of assets through theft and misappropriation.

## Grant MacEwan University

In our *April 2010 Report* (page 173), we reported that the University had started several initiatives and taken preliminary steps to improve its control environment and resolve its information technology, processes and staff issues. The University has updated and implemented new policies over the past year. It is also implementing a new enterprise resource planning system that the University anticipates will be fully operational in 2010–2011.

In our *October 2010 Report* (page 29), we reported that while the University would rely on many processes and controls within its new enterprise resource planning system, it still needed to develop manual processes and controls for the remaining phases before implementing the system.

We will review if the University has implemented well-designed processes and controls and we will test their operating effectiveness once the University has completed these initiatives.

### Signed contracts in place—recommendation repeated

We repeat this recommendation because the results of our testing this year indicate that progress has been unsatisfactory.

### Background

In our *November 2006 Report* (no. 9—page 35), we recommended Grant MacEwan University ensure that signed contracts (interim or final) for construction projects are in place before projects start. The University had paid approximately $18.1 million over 10 months with no signed interim or final contract in place.

The University's procurement policy states that goods and services should be procured by authorized employees through an effectively managed, properly planned and executed process. The purpose of this policy is to ensure procurement decisions and activities make the best use of resources for an intended purpose, demonstrate the values and mission of the University, and are ethical, fair, transparent and consistent with legislation.

### Recommendation: ensure contracts are signed before work begins

**RECOMMENDATION NO. 3—REPEATED**

We again recommend that Grant MacEwan University have signed contracts (interim or final) in place before projects start.

### Criteria: the standards for our audit

The University should ensure:

- appropriate approval is in place before entering into a contract
- legally enforceable contracts with its contractors are in place that define the roles and responsibilities of both parties before a contractor supplies goods or services
- contract payments are in accordance with the terms of the contract

### Our audit findings

**Key Point**

Contracts or other documents setting out terms and conditions not signed before services start

We selected 10 contracts for testing. We identified the following cases where the University was operating without a signed contract:

- The University entered into a three-year contract with a facility services company for approximately $2.25 million. Services under this contract began on October 27, 2009. The University signed this contract on May 18, 2010.
- The University entered into a five-year contract with a company for approximately $3.8 million. Services under this contract began on December 31, 2009; however, the company did not sign the contract until September 1, 2010. We were told that the University contacted the company regarding the unsigned contract; however, we did not see any documentation to support this assertion.
- The University received services under a contract with an engineering company that was signed on August 7, 2009. However, work under this contract and billing for services began in June 2009.

We did not see any documentation indicating how the University was mitigating the risk of not having a signed contract. It was also unclear whether the University's processes allow for enough time to renew contracts before they expire.

### Implications and risks if recommendation not implemented

Without a signed contract in place, roles and responsibilities of the parties may not be clear or enforceable.

## Soliciting donations—implemented

### Background

In our *November 2006 Report* (no. 10—page 137), we recommended that Grant MacEwan University establish a policy clearly indicating it will not solicit or accept donations with participating vendors during a tendering process.

### Our audit findings

Key Point

New fundraising policy implemented

In April 2010, the board approved a new fundraising policy. This policy states that the University does not allow gifts, gifts-in-kind or sponsorships to be used to leverage unfair advantages or court favours in University operations, including contracts, employment, admissions or any academic issue. It also states that University employees engaged in donor liaison and soliciting gifts must not grant or accept favours for personal gain and must avoid actual or perceived conflicts of interest.

In addition, the board approved a new procurement policy in February 2010. This policy states that all procurement decisions, actions or communications must avoid real or perceived conflicts of interest, including solicitation or acceptance of donations with participating vendors during a bidding process.

The University has worked on ensuring a high level of staff awareness about accepting donations through the fundraising process and avoiding possible conflicts with contracts being awarded.

# Keyano College

## User access controls

### Background

System access controls are a cornerstone of data security. They ensure that users cannot make unauthorized changes to systems, applications or the data in them.

When an employee leaves employment at Keyano College, their supervisor is required to complete a *Staff Out Clearance* form and submit it to the payroll department. The payroll department is then to notify the information technology services department to disable the employee's access ID and password. This would ensure that a former employee's privileged access to networks and applications is no longer available.

The College has three key business and financial application systems that we reviewed for this audit:

- Great Plains—financial system
- CLASS—sport and wellness centre
- Power Campus—student registration

## Recommendation: access controls to key financial systems

**RECOMMENDATION**

**We recommend that Keyano College improve access control policies and processes for its information systems to ensure that:**

- **user access to networks and application systems is disabled when employees leave their employment**
- **user access to computer networks and systems is properly authorized and all staff and contractors comply with the computer use policy**

## Criteria: the standards for our audit

Keyano College should:

- have a clear policy and documented control process for managers to follow in requesting, approving, granting, regularly reviewing and terminating access to financial systems and supporting computer infrastructure
- ensure that access control processes gather appropriate evidence to show they are regularly followed and that staff comply with the computer use policy—specifically, not sharing user accounts (IDs and passwords)

## Our audit findings

**Key Points**

- Processes need improvement to remove users' access after they leave
- Networks accessed using user accounts of former staff
- User accounts shared between staff and contractors

We examined processes for approving, granting and terminating user access privileges to their information systems. We found that:

- when a staff member leaves employment, the information technology branch does not always receive a *Staff Out Clearance* form to disable the employee's network and application access
- user accounts (IDs and passwords) belonging to former employees were shared with temporary and contract staff, which is a breach of the computer use policy

**User accounts belonging to former employees not always disabled**—We tested the processes to disable users' access to the network and three key business applications. We found that accounts for 19 out of 63 former staff were still active as of May 10, 2010. Of these 19 accounts, eight had been used to access the network and three key business applications, with the earliest occurrence dating back to July 2009. We informed management of this. We also found the College needed to improve its investigation and monitoring processes. See Information technology security event monitoring investigation (page below).

**User accounts were shared with temporary and contract staff**—Staff do not comply with the computer use policy. The College reported to us that the eight user IDs that belonged to former employees were not disabled in accordance with their policy. Rather, the user IDs were assigned to temporary staff and contractors. There was no formal documentation prepared to reassign the accounts to the contractors.

## Implications and risks if recommendation not implemented

Ineffective controls over access to the College's network and key business applications may result in unnecessary risk for system failure, unauthorized access, security exposure and fraud.

# Information technology security event monitoring and investigation

## Background

Most information security devices and business applications have security features that can log and report all levels of events and activities. Information about potential threats and vulnerabilities, as well as user access information such as user identifier,

time and type of access, can all be logged to detect security threats. Continuous monitoring of such logs allows management to take timely action to investigate the security event, assess its impact and take appropriate action to prevent a recurrence. System log management tools can be used to generate alerts and reports automatically.

## Recommendation: monitor access to key financial systems

**RECOMMENDATION**

We recommend that Keyano College develop a policy and processes for monitoring and investigating breaches of security to its information systems.

## Criteria: the standards for our audit

The College should:

- have control processes in place to log and monitor information security and access violations—Such processes should also state how security violations should be reported and remediated.
- have policies and procedures to conduct a security investigation when a breach of its security controls or devices has occurred or is suspected—This should include reporting the event to senior management and recommending proactive measures to prevent a recurrence of the security event.
- properly configure and keep current access controls lists (e.g., network active directory) for network operating systems, applications and other security devices to prevent unauthorized access

## Our audit findings

**Key Point**

Access to financial systems not monitored for unauthorized access

The College does not have a formal security policy and processes to guide it through an information technology (IT) security investigation. IT staff review security logs and alerts reactively, and without predefined controls to assess the level of risk or impact of threats. The College has software to monitor and identify security events in its computing environment. However, IT staff use the software mainly for network infrastructure performance and troubleshooting rather than security monitoring.

We identified that the user accounts of eight out of 19 former employees were used to access the College's networks and key business applications (see page 77). The College was unaware of these incidents until we advised them. Management disabled the 19 system accounts within 24 hours of being notified of this activity.

The College conducted an informal investigation. We were advised that the eight accounts, originally assigned to the former employees, had user IDs and passwords that were shared with temporary and contract staff. The College also reported to us that it believed there was no significant or material exposure from this incident because the affected accounts had limited system access privileges. However, it was difficult for the College to trace the activities of the users who accessed the network and the application systems. Security event logging for system components have limited capability, and tools available for network monitoring are not fully used. As a result, the College could not assess whether there was any wrongdoing from the use of these accounts.

We concluded that the College is unable to demonstrate that it has the capability to prevent or promptly detect future security breaches with unauthorized user access, because of the weak user access controls, weak system security event monitoring detection and the lack of a formal IT security investigation process.

## Implications and risks if recommendation not implemented

Management will not know when or to what extent its networks and applications have had an IT security exposure that could affect the integrity of the College's information, operations and public reputation.

## Lakeland College

### Code of conduct

#### Background

A code of conduct is an essential part of an organization's control over its operations. For this control to be effective, employees must acknowledge that they understand the code of conduct's requirements, agree to abide by them and accept that if they violate policy there will be consequences. The code of conduct and the consequences of violating it should be clear.

The College approved and implemented a revised code of conduct in 2009. The policy requires new employees to read, understand and agree to abide by the policy. Employees are then required to sign and send the code of conduct agreement to the human resources office at the start of their employment. In addition, all staff must review the code of conduct during their annual employee performance appraisal and reconfirm their compliance and understanding of the policy.

#### Recommendation: improve controls for staff to formally acknowledge code of conduct

**RECOMMENDATION**

We recommend that Lakeland College enhance its code of conduct processes and require all employees to reconfirm compliance with the code of conduct regularly.

#### Our audit findings

**Key Point**

Employee acknowledgement process not fully complied with

As a result of our testing, we found that:

- eight out of 10 newly hired employees did not have a code of conduct acknowledgement form on file
- human resources staff could not provide evidence of employees' annual acknowledgement of the code of conduct for eight out of 15 current employees

We also observed that the code of conduct acknowledgement form does not describe corrective actions. The form does not include a requirement that employees agree to adhere to this policy or to say that they understand that in case of violation they would face disciplinary action.

#### Implications and risks if recommendation not implemented

If the College does not require all employees to acknowledge the code of conduct regularly, the policy might fail to prevent inappropriate behaviour.

### Segregation of duties over payroll function—recommendation repeated

#### Background

In our *April 2009 Report* (page 91), we recommended that Lakeland College:

- ensure personnel have appropriate access to make changes in certain functions in PeopleSoft payroll
- implement a security matrix to ensure that only appropriate individuals are assigned the authority to change certain functions
- review change reports generated from the payroll system for appropriateness

#### Recommendation: payroll controls

**RECOMMENDATION REPEATED**

We again recommend that Lakeland College adequately segregate access to the PeopleSoft payroll system. We also recommend that management review change reports generated from the payroll system for appropriateness.

#### Criteria: the standards for our audit

The College should have effective controls over payroll by:

- segregating the incompatible functions of changing payroll data and processing payroll information
- generating reports of changes made to payroll standing data from the system and reviewing all changes for appropriateness

### Our audit findings

Key Point

Security roles for PeopleSoft not yet implemented

We found Lakeland College had made little progress toward implementing this recommendation. In our discussion with management, we found the payroll security matrix had not been implemented as of June 2010. The College's human resources department is reviewing the payroll security matrix to determine which roles should be given to each payroll member to ensure proper segregation of duties. Management expects the payroll security matrix to be fully implemented in fiscal 2010–2011.

### Implications and risks if recommendation not implemented

Inappropriate segregation of duties increases the risk that inappropriate transactions may occur. The absence of system-generated change reporting increases the risk that Lakeland College might not detect an inappropriate change or error in its payroll systems.

## Medicine Hat College

Controls over cash, accounts receivable and accounts receivable write-offs

### Background

Internal controls include measures and practices that management uses to mitigate exposures to risks that could prevent an organization from achieving its objectives. A cornerstone to a good internal control system is the segregation of responsibilities to ensure there are no incompatible functions. Proper segregation of responsibilities helps minimize the risk of fraud and errors in the financial statements.

### Recommendation: controls over cash and accounts receivable

RECOMMENDATION

We recommend that Medicine Hat College improve controls over cash, accounts receivable and accounts receivable write-offs related to tuition by:

- adequately segregating incompatible functions of preparing daily cash receipts, processing accounts receivable and writing off accounts receivable
- requiring registration clerks to use cash count sheets for controlling cash handling and reconciling cash handovers to the student accounts clerk

### Criteria: the standards for our audit

The College should operate effective controls over cash. These should include segregating incompatible functions within receivables and areas handling cash, and processes for handling cash.

### Our audit findings

Key Point

Incompatible functions performed by same individual without sufficient independent review

We assessed the design of the College's controls over cash and accounts receivable. We saw the student accounts clerk performed many incompatible functions. This individual is responsible for summarizing the daily cash receipts, processing accounts receivable receipts and has access to writing off accounts receivable.

The College's registration clerks collecting cash do not prepare cash count sheets at the end of their shifts. Each clerk hands over their cash drawer to the student accounts clerk, who performs the daily cash counts and prepares cash summaries. At peak times during student registration, cash receipts could range from $50,000 to $60,000 per day. If each registration clerk prepared count sheets and handed them over to the student accounts clerk at the end of their shift, the student accounts clerk could use the count sheets to

reconcile daily cash receipts and investigate and resolve any discrepancies between receipts recorded and cash collected.

The College's management stated that some compensating controls exist to reduce the risk of fraud and error. These include the approval of accounts receivable write-offs by the manager of registration and scheduling. However, we found no documentation to show this approval. Therefore, we could not verify if the compensating controls were effective.

### Implications and risks if recommendation not implemented

Without appropriate segregation of duties and effective processes over cash handling and receivables, Medicine Hat College's risk of fraud and inappropriate transactions increases.

## Northern Alberta Institute of Technology

### Purchasing guidelines—implemented

In our *April 2010 Report* (page 187), we recommended that the Northern Alberta Institute of Technology (NAIT) implement processes to ensure:

- guidance exists on the steps required to evaluate potential vendors and the documents required to evidence that a review occurred
- compliance with its purchasing guidelines
- proper justification for all purchasing decisions

We had noted that NAIT's documentation for several purchase orders was inadequate.

NAIT has implemented the recommendation by improving its guidelines for purchase orders and by:

- creating buyer checklists for quotes and tenders, and vendor evaluation templates for requests for purchases and requests for tenders
- centralizing the filing system for all incoming and approved requests for purchases

We tested 15 purchase order transactions and noted that all purchases were in accordance with NAIT's purchasing guidelines and included appropriate documentation for the purchases.

## Olds College

### Bookstore sales and inventory controls—recommendation repeated

We repeat this recommendation because the results of our audit indicate that Olds College made unsatisfactory progress to resolve the issues raised in our *April 2010 Report* (page 184).

### Background

The College's bookstore is responsible for purchasing, selling, managing inventories, and keeping records for books and other educational items. The bookstore performs a vital function for students and generates ancillary revenue for the College. Total revenue from the bookstore for 2009–2010 was approximately $947,000. Last year, we recommended that the College strengthen its bookstore controls. We noted problems with segregation of duties and access to bookstore financial records.

### Recommendation: improve internal controls

**RECOMMENDATION REPEATED**

We again recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

### Criteria: the standards for our audit

The College should have effective processes and internal controls to buy, sell books and other inventory, manage and account for this inventory, and keep records. Access to assets and records should be restricted. Segregation of duties should exist for reconciliations, handling of cash and making orders.

### Our audit findings

The College has not developed a plan to enhance the bookstore controls or established a timeframe to make the improvements.

We again found the following internal control deficiencies:

- no segregation of duties surrounding cash—All bookstore employees are allowed to perform daily cash reconciliations, handle cash at the till and make deposits. This restricts effective cash stewardship and record keeping.
- no restricted access to the master price list—All bookstore employees have access to change the master price list. This restricts maintaining the integrity of data, and may result in undetected fraud.
- no sales till operator identification—The till tapes do not identify which bookstore employee makes each specific sales transaction. This restricts maintaining accountability of staff for individual transactions.
- no reconciliations of inventory count to records performed—No investigations are done for inventory discrepancies to ensure accuracy and identify causes such as theft of inventory. This restricts maintaining accurate inventory records and performing detailed analyses for different types of inventory movement throughout the year, and identifying potential theft of inventory.

### Implications and risks if recommendation not implemented

Without appropriate internal controls at the bookstore, manipulation of sales and inventory data can occur and go undetected for a significant amount of time. This increases the risk of fraud against the College.

## Portage College
### Inventory tracking

### Background

Currently, Portage College's bookstore uses ISBN stickers, manually created by a receiving clerk in the warehouse, to control inventory. For smaller items such as office supplies, which do not have ISBN stickers, any code can be used at the time of sale, depending on the knowledge and experience of the cashier. The codes create confusion when a product already in inventory gets repackaged. If a certain product looks different from before, a receiving clerk assigns a new code to record the received goods into the system.

At year-end, two College staff perform a physical count of the bookstore inventory. The results of the physical count are compared against the College's perpetual inventory list. The bookstore produces an inventory reconciliation report that identifies the discrepancies between the perpetual inventory system and the physical count. This report is sent to the finance department.

### Recommendation: improve controls over bookstore inventory

**RECOMMENDATION**

We recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

### Criteria: the standards for our audit

The College's perpetual inventory systems should accurately reflect the amount of inventory on hand on a real-time basis. Periodic physical inventory counts should serve to verify the amounts recorded in the system.

### Our audit findings

**Key Points**

- Discrepancies between actual inventory and recorded inventory exist
- Discrepancies not investigated, but simply overwritten in system

We reviewed the inventory reconciliation report and noted numerous large discrepancies between book and physical inventory amounts. In addition, some inventory items were recorded in the perpetual system as having negative quantities on hand.

Physical count discrepancies and negative quantities for inventory can occur because warehousing employees are authorized to assign ISBN numbers for products received. Bookstore cashiers can enter sales using any ISBN number in the system. This can create negative quantities

and discrepancies if cashiers record sales using ISBN numbers different from the ones warehouse staff used to receive the inventory. There are no further investigations for such discrepancies. The bookstore staff simply make adjusting journal entries to change book inventory to actual.

### Implications and risks if recommendation not implemented

Inventory tracking is an important control, as it helps Portage College provide accurate financial information and prevent fraud from occurring.

## Red Deer College

Control over payroll processes—implemented

### Background

In our *April 2010 Report* (page 185), we recommended that Red Deer College improve its controls over payroll. We identified weaknesses in segregation of duties for payroll processing, documentation of employment contracts, and in filing and retention of employment contracts.

The College implemented a process whereby human resource staff, independent from the payroll unit, review all transactions that payroll staff process. This review will ensure that the transactions are supported by appropriate documentation from other business areas. Also, the College has clarified its policy for retaining and filing signed employment contracts. The College is now filing employment contracts for new staff who do not participate in a collective bargaining unit.

## Financial statements

We audited the financial statements, for the year ended June 30, 2010, of the following:

- Alberta College of Art and Design
- Bow Valley College
- Grande Prairie Regional College and its related entities, Grande Prairie Regional College Foundation and Fairview College Foundation
- Grant MacEwan University and its related entity, Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University
- NorQuest College
- Northern Alberta Institute of Technology and its related entity, the Northern Alberta Institute of Technology Foundation
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Our auditor's opinions on the financial statements for the above entities were unqualified.

We have not yet audited the financial statements of Northern Lakes College, as management has experienced significant difficulty in completing the financial statements and providing us with sufficient supporting documentation. We will include the results of this audit in our October 2011 Report.

Our October 2011 report will also include the results of the financial statement audits of the following entities that have a March 31, 2011 year-end:

- Ministry of Advanced Education and Technology
- Department of Advanced Education and Technology
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Innovates—Technology Futures
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

AUDITOR GENERAL
*Alberta*

# Past Recommendations

## Report of the Auditor General of Alberta—April 2011

# Outstanding Recommendations

This list of outstanding past recommendations is organized alphabetically by ministry. Each section includes outstanding recommendations for a ministry and the entities that report to it. Each section has two parts, indicating where management has informed us that either:

- the recommendation is still being implemented and not ready for a follow-up audit, or
- the recommendation has been implemented and is ready for a follow-up audit.

We prioritize recommendations in our public reports as:

- **Key**—numbered recommendations that we believe are the most significant.
- **Numbered**—require a formal public response from the government. When implemented, these recommendations will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or governance and ethics processes in government.
- **Unnumbered**—although important, these recommendations do not require a formal public response from government. The recipient of the recommendation has responded to us during the audit process.

Recommendations within each section are identified by a "key" if they were originally key recommendations, and by a "3+" if they have been outstanding for three years or more. Although we recognize that some recommendations will take longer to implement, we encourage management to implement our key and numbered recommendations within three years. We confirm implementation of recommendations by conducting follow-up audits.

We currently have 280 outstanding recommendations—30 key, 116 numbered and 134 unnumbered:

| | Key | Numbered | Unnumbered | Totals |
|---|---|---|---|---|
| Ready for follow-up audits | 7 | 35 | 49 | **91** |
| Not yet ready for follow-up audits | 23 | 81 | 85 | **189** |
| **Total** | **30** | **116** | **134** | **280** |

Of these 280 outstanding recommendations, 58 have been outstanding for 3 years or more. Of these 58 recommendations, 8 key and 26 numbered recommendations are not yet ready for follow-up audits.

The reports that contain these recommendations are on our website at www.oag.ab.ca.

## Aboriginal Relations

There are no outstanding recommendations for this entity.

## Advanced Education and Technology

### Department

These recommendations are outstanding and not yet ready for follow-up audits:

**Information technology control policies and processes—April 2008, no. 8, p. 195**
We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) give guidance to public post-secondary institutions on using an information technology control framework to develop control processes that are well-designed, efficient, and effective.

**Cross-Institution recommendations: Enterprise risk management—April 2010, no. 17, p. 158**
We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Non-credit programs: Standards and expectations—April 2008, no. 1, p. 22**
We recommend that the Department of Advanced Education and Technology:
- clarify its standards and expectations for non-credit programs and clearly communicate them to public post-secondary institutions
- work with institutions to improve the consistency of information that institutions report to the Department

**Non-credit programs: Monitoring—April 2008, no. 2, p. 23**
We recommend that the Department of Advanced Education and Technology implement effective processes to:
- monitor whether institutions report information consistent with its expectations
- investigate and resolve cases where institutions' program delivery is inconsistent with its standards and expectations

**Monitoring vocational programs offered by private institutions—April 2008, p. 42**
We recommend that the Department of Advanced Education and Technology:
- develop a risk-based strategic audit plan of new and follow-up audits, including timelines and resources to audit private institutions
- issue orders and information on deficiencies within a reasonable time after completing the audit

**Improve controls over student finance program—October 2010, p. 108**
We recommend that the Department of Advanced Education and Technology improve its controls over the student finance program by:
- properly approving changes to student loan programs and communicating the changes to staff
- reviewing and approving changes to assumptions and methodologies used in calculating the allowance for loan relief completion payments and loan subsidies

### Alberta College of Art and Design

The following recommendations are outstanding and not yet ready for follow-up audits:

**Bookstore operations—April 2010, p. 181**
We recommend that Alberta College of Art and Design maintain an effective system of internal controls to enhance the integrity of its bookstore operations.

**Preserving endowment assets—April 2009, p. 78**
We recommend that Alberta College of Art and Design define its goals for the use and preservation of the economic value of endowment assets (inflation proofing).

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Information technology internal controls—October 2007, vol. 2, p. 21**
We recommend that the Alberta College of Art and Design strengthen internal controls for computer system access and server backups. We further recommend that the College develop a computer use policy.

**Periodic financial reporting—April 2010, p. 160**
**(repeated once since April 2008)**
We again recommend that Alberta College of Art and Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

**Journal entries—April 2010, p. 183**
We recommend that Alberta College of Art and Design:
- ensure journal entries entered into the financial system are independently reviewed and approved
- develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry

## Athabasca University

The following recommendations are outstanding and not yet ready for follow-up audits:

**Information technology governance, strategic planning and project management: Improve governance and oversight of information technology—October 2010, no. 1, p. 21**
We recommend that Athabasca University continue to improve its information technology governance by:
- developing an integrated information technology delivery plan that aligns with the University's information technology strategic plan
- requiring business cases for information technology projects that include key project information such as objectives, costs-benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the information technology steering committees in reviewing, approving and overseeing projects

**Information technology governance, strategic planning and project management: Improve portfolio and project management processes—October 2010, no. 2, p. 24**
We recommend that Athabasca University continue to improve its portfolio management and project management processes for information technology projects by:
- clarifying and communicating the mandate and authority of the project management office
- setting project management and architectural standards, processes and methodologies, and training project managers on these
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

**Information technology governance, strategic planning and project management: Formalize information technology project performance monitoring and reporting—October 2010, p. 25**
We recommend that Athabasca University formalize and improve its monitoring and oversight of information technology projects by:
- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the information technology steering and executive committees, and summarized project information to the Athabasca University Governing Council Audit Committee
- completing post-implementation reviews on projects to verify that expected objectives and benefits were met and identify possible improvements to information technology governance, strategic planning and project management processes

**Information technology governance, strategic planning and project management: Resolve inefficiencies in financial, human resources and payroll systems—October 2010, p. 27**
We recommend that Athabasca University complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

**Establish information technology resumption capabilities—October 2010, no. 10, p. 111**
We recommend that Athabasca University:
- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical information technology systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

## Grant MacEwan University

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Construction management—November 2006, no. 9, p. 35**
We recommend Grant MacEwan University ensure that signed contracts (interim or final) for construction projects are in place before projects start.

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 165**
We recommend that Grant MacEwan University:
- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

**Preserve endowment assets—April 2010, p. 170**
We recommend that Grant MacEwan University improve its endowment and related investment policies and procedures by:
- establishing and regularly reviewing a spending policy for endowments
- improving its processes to review its endowment related investments
- improving its reporting of investments and endowments to the audit and finance committee

**Improve and implement University policies—April 2010, no. 18, p. 174**
We recommend that Grant MacEwan University improve its control environment by implementing or improving:
- a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies
- a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively
- a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities
- a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment

**Adhere to signing authority limits—April 2010, p. 176**
We recommend that Grant MacEwan University improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Computer control environment—October 2005, p. 104**
We recommend that Grant MacEwan University resolve identified deficiencies and strengthen the overall control framework in the information technology environment.

**Bookstore Operations—April 2008, p. 186**
We recommend that Grant MacEwan University improve its systems to:
- manage and report inventories
- monitor and account for the use of petty cash

**Parking services fees—April 2009, p. 82**
We recommend that Grant MacEwan University improve its systems to control, collect and account for parking services fees.

**Capital assets—April 2009, p. 85**
We recommend that Grant MacEwan University improve its capital asset processes by:
- documenting its assessment on the appropriate accounting treatment for costs related to construction and renovation projects
- coding and recording transactions accurately the first time

## Lakeland College

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Improve payroll controls—April 2009, p. 91**
We recommend that Lakeland College:
- adequately segregate staff access to the PeopleSoft payroll system to ensure only valid changes are made
- review change reports generated from the payroll system for appropriateness
- prepare monthly reconciliations of the payroll system to the general ledger and promptly review the reconciliations

## NorQuest College

Management has identified these recommendations as implemented—to be confirmed with a follow-up audit:

**Procurement cards: Discrepancy log—April 2009, p. 88**
We recommend that NorQuest College improve controls to ensure that procurement cardholders comply with its procurement card policy.

**Procurement cards: Compliance with procedure card policy—April 2009, p. 89**
We recommend that NorQuest College ensure that its procurement card statements are supported by adequate documentation and are approved by an authorized individual before making payments.

**Bookstore services: Segregation of duties in the bookstore—April 2010, p. 186**
We recommend that NorQuest College implement proper segregation of duties within its bookstore services.

## Olds College

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Improve bookstore sales and inventory control—April 2010, p. 181**

We recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

## Portage College

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Periodic financial reporting—April 2010, p. 160**

We recommend that Portage College improve its financial reporting to the Board and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

## Red Deer College

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 167**

We recommend that Red Deer College:

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- strengthen its processes to ensure staff follows its policies and processes for employee expense claims and corporate credit cards

## University of Alberta

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 167**

We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Strategic planning for research—October 2004, p. 252**

We recommend that the University of Alberta improve the integration of research into its strategic business plan by ensuring that:

- key performance measures and targets are identified with each strategy indicated in the plan
- the costs of achieving these targets are considered when making budget allocation decisions
- the faculty and other research administrative unit plans set out in clear, consistent terms, the extent to which faculties and units are planning to contribute to the achievement of these targets

## University of Calgary

The following recommendations are outstanding and not yet ready for follow-up audits:

**Improving the control environment—October 2008, no. 21, p. 213**

We recommend that the University of Calgary improve the effectiveness of its control environment by:

- assessing whether the current mix of centralized and decentralized controls is appropriate to meet its business needs
- defining clear roles, responsibilities and accountabilities for control systems' design, implementation, and monitoring
- documenting its decentralized control environment and implementing training programs to ensure those responsible for business processes have adequate knowledge to perform their duties
- monitoring decentralized controls to ensure processes operate effectively

**Controls over payroll—October 2009, p. 153**
**(repeated twice since October 2007)**

We again recommend that the University of Calgary improve controls over payroll functions.

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 166**

We recommend that the University of Calgary:

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

3+ **Research management: Improve human resource plans and system for cost planning to quantify and budget for indirect costs—October 2010, no. 4, p. 46**
**(repeated once since October 2004)**

We again recommend that the University of Calgary improve its human resources plans and develop a system to quantify and budget for the indirect costs of research.

3+ **Research management: Define research management roles and responsibilities—October 2010, no. 5, p. 48**
**(repeated once since October 2005)**

We again recommend that the University of Calgary define research management roles and responsibilities.

3+ **Research management: Maintain current and comprehensive research policies—October 2010, no. 6, p. 50 (repeated once since October 2005)**
We again recommend that the University of Calgary ensure all research policies are current and comprehensive. Specifically, the policies should identify who is responsible for monitoring compliance.

**Research management: Use project management tools for large, complex projects—October 2010, p. 52 (repeated once since October 2005)**
We again recommend that the University of Calgary and its faculties use project management tools for large, complex projects to ensure research is cost effective.

3+ **PeopleSoft security: Improve access to data and systems—October 2010, no. 11, p. 112 (repeated four times since October 2006)**
We again recommend that the University of Calgary improve controls in the PeopleSoft system by:
- finalizing and implementing the security policy and the security design document
- ensuring that user access privileges are consistent with both the user's business requirements and the security policy

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

3+ **Information technology governance and control framework—October 2007, no. 18, vol. 2, p. 10**
We recommend that the University of Calgary implement an information technology governance and control framework.

## University of Lethbridge

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Information technology internal control framework—October 2007, no. 21, vol. 2, p. 23**
We recommend that the University of Lethbridge implement an information technology control framework.

**Improve endowment policies—October 2010, p. 118**
We recommend that the University of Lethbridge improve its endowment policies and procedures by:
- clarifying its goals for preserving the real value of endowments, and how it plans to achieve this
- tracking investment income between amounts for preserving the real value of investments and amounts available for spending

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Financial research roles and responsibilities—October 2008, p. 225**
We recommend that the University of Lethbridge clearly define and communicate the financial research-management roles and responsibilities of research services, financial services and deans.

**Clear and complete research policies—October 2008, p. 227**
We recommend that the University of Lethbridge improve systems to ensure that:
- financial research policies are current and comprehensive
- proper documentation is maintained for approving research accounts
- researchers, research administrators and financial services staff are aware of changes to financial policies and are properly trained to comply with the policies

**Processes for investing in research projects—April 2009, no. 1, p. 26**
We recommend that the University of Lethbridge:
- strengthen processes for assessing risks and benefits relating to prospective business relationships
- strengthen processes to oversee and monitor financial and other risks throughout the life of business relationships
- periodically report to the Board of Governors key information on financial and other risks in research management

# Agriculture and Rural Development

## Department

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

8→ 3+ **Evaluating program success: grant management—October 2005, no. 20, p. 113 (repeated once since October 2001)**
We again recommend that the Department of Agriculture, Food and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs.

3+ **Food safety: Alberta Agriculture's surveillance program—October 2006, no. 9, vol. 1, p. 88**
We recommend that the Department of Agriculture, Food and Rural Development improve the administration of its food safety surveillance program. This includes:
- documenting its prioritization processes
- involving partners in the prioritization of projects
- ensuring conditions for the approval of specific projects are met and final approval recorded
- capturing costs for large projects
- monitoring the impact of surveillance projects
- considering whether regulatory support for the program is required

**Food safety: Alberta Agriculture's food safety information systems—October 2006, vol. 1, p. 94**
We recommend that the Department of Agriculture, Food and Rural Development improve its food safety information systems. This includes:
- improving security and access controls
- ensuring complete, timely, and consistent data collection, and
- ensuring data gets onto the computerized data base

**Monitoring information technology security policy—October 2006, vol. 2, p. 40**
We recommend that the Department of Agriculture, Food and Rural Development:
- document, approve and communicate to employees and contractors its information technology security policies and standards
- implement a process to monitor compliance by employees and contractors with information technology security policies and standards

3+ **Reporting and dealing with allegations of employee misconduct—November 2006, no. 12, p. 46**
We recommend that the Department of Agriculture, Food and Rural Development improve its systems for reporting and dealing with allegations of employee misconduct.

## Agriculture and Rural Development and Health and Wellness

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Food safety: Integrated food safety planning and activities—October 2009, no. 11 , p. 107**
**(repeated once since October 2006)**
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development, in cooperation with Alberta Health Services and federal regulators, improve planning and coordination of food safety activities and initiatives. This includes:
- each provincial ministry defining its own food safety policies, objectives and measures (satisfactory progress)
- coordinating provincial food safety policies and planning so initiatives are integrated (satisfactory progress)
- ensuring provincial approaches align with initiatives being developed through federal/provincial/territorial committees (satisfactory progress)
- improving day-to-day coordination of provincial food safety activities
- encouraging the joint application of HACCP and HACCP related programs in Alberta, and (satisfactory progress)
- improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Branch and the Canadian Food Inspection Agency

3+ **Food safety: Accountability—October 2009, no. 13, p. 114**
**(repeated once since October 2006)**
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development improve reporting on food safety in Alberta.

## Agriculture and Rural Development, Health and Wellness and Alberta Health Services

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

3+ **Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111**
**(repeated once since October 2006)**
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:
- mobile butchers
- consistently administering the *Meat Facility Standard*
- coordinating inspections in the "non-federally registered" sector

## Agriculture Financial Services Corporation

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Improve processes for conducting compliance audits—October 2010, no. 12, p. 124**

We recommend Agriculture Financial Services Corporation improve its processes for conducting compliance audits and investigations by:

- clearly defining the roles and responsibilities of the Program Cross Compliance and Investigations Group
- improving the coordination between the Program Cross Compliance and Investigations Group and program areas

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Loan loss processes—October 2007, vol. 2, p. 32**

We recommend that the Agriculture Financial Services Corporation improve its loan loss methodology and processes by:

- developing guidelines to assess which loans are impaired
- incorporating historical loan loss experience
- periodically updating data used in the methodology

**Information technology risk assessment and control framework—October 2009, p. 168**

We recommend that Agriculture Financial Services Corporation:

- complete an information technology risk assessment to identify and rank the risks within its computing environment, linking to business objectives, and
- design and implement information technology controls to mitigate the risks it identifies

**Verify accuracy of specific loan loss allowance—October 2010, p. 122**

We recommend that Agriculture Financial Services Corporation improve the effectiveness of processes to determine the specific loan loss allowance on impaired loans.

## Children and Youth Services

### Department

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Child intervention services: Accreditation systems for service providers—October 2007, no. 7, vol. 1, p. 82**

We recommend that the Department of Children's Services evaluate the cost-effectiveness of accreditation systems and the assurance they provide.

**Child intervention services: Department compliance monitoring—October 2007, no. 8, vol. 1, p. 83**

We recommend that the Department of Children's Services improve compliance monitoring processes by:

3+
- incorporating risk-based testing in case-file reviews
- providing feedback to caseworkers on monitoring results of case-file reviews
- obtaining and analyzing information on Authorities' monitoring of service providers

### Department and Child and Family Services

**Daycare and day home regulatory compliance monitoring: Documentation and training—October 2010, p. 37**

We recommend that the Department of Children and Youth Services, working with the Child and Family Services Authorities, review documentation and training requirements for monitoring licensed and approved programs to ensure requirements are being met.

### Child and Family Services Authorities

The following recommendations are outstanding and not yet ready for follow-up audits:

**Child intervention services: Authorities compliance monitoring processes—October 2007, vol. 1, p. 86**

We recommend that the Child and Family Services Authorities improve compliance monitoring processes by providing caseworkers with:

- training on file preparation and maintenance
- feedback from the monitoring results of case-file reviews

**Child intervention services: Authorities monitoring of service providers—October 2007, vol. 1, p. 88**

We recommend that the Child and Family Services Authorities improve the evaluation of service providers by coordinating monitoring activities and sharing the results with the Department.

**Daycare and day home regulatory compliance monitoring: Improve consistency of monitoring—October 2010, p. 38**
We recommend that Child and Family Services Authorities improve systems to ensure their consistent compliance with monitoring and enforcement policies and processes.

**Daycare and day home regulatory compliance monitoring: Improve follow-up processes—October 2010, no. 3, p. 39**
We recommend that Child and Family Services Authorities improve systems for monitoring and enforcing child care program compliance with statutory requirements and standards by ensuring that all verbal warnings are adequately documented and resolved.

## Culture and Community Spirit

### Ministry and Tourism, Parks and Recreation

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Computer control environment—October 2007, vol. 2, p. 172**
We recommend that the Ministry of Tourism, Parks, Recreation and Culture work with Service Alberta to:

- document the services that Service Alberta is to provide and its control environment for information technology
- implement a process to ensure that Service Alberta consistently meets service level and security requirements
- provide evidence that control activities maintained by Service Alberta are operating effectively

## Education

### Ministry and Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Business cases—October 2007, vol. 2, p. 45**
We recommend that the Department of Education establish a policy for developing business cases.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**School board budget process—October 2006, no. 25, vol. 2, p. 65**
We recommend that Alberta Education improve the school board budget process by:

- providing school boards as early as possible with the information needed to prepare their budgets (e.g. estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements)
- requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry
- establishing a date for each school board to give the Ministry a trustee-approved revised budget based on actual enrolment and prior year actual results
- reassessing when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit

**School board interim reporting—October 2006, no. 26, vol. 2, p. 68**
We recommend that Alberta Education work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees.

We also recommend that Alberta Education work with the key stakeholder associations to provide information to trustees about:

- the characteristics of a strong budgetary control system
- best practices for fulfilling financial monitoring responsibilities

### Northland School Division No. 61

The following recommendations are outstanding and not yet ready for follow-up audits:

**Obtaining an interest in land—October 2010, no. 13, p. 133**
We recommend that Northland School Division No. 61 develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

**Improving financial reporting—October 2010, no. 14, p. 134**
We recommend that the Northland School Division No. 16 improve its financial reporting by:

- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

# Employment and Immigration

## Department

The following recommendations are outstanding and not yet ready for follow-up audits:

**Approving and renewing training programs—October 2008, p. 249**
We recommend that the Department of Employment and Immigration improve its systems for approving and renewing programs by:

- clearly defining criteria for approving each program
- developing clear performance expectations for each program and training provider
- using its monitoring results to decide whether to renew a program

**Improving the use of information systems—October 2008, p. 251**
We recommend that the Department of Employment and Immigration improve the use of its information systems by:

- integrating its payment-processing system with other learner databases to ensure that tuition fee payments are accurate
- implementing adequate controls to ensure all key learner data is promptly updated in the system
- using exception reports to detect potential non-compliance problems

**Occupational Health and Safety: Promoting and enforcing compliance—April 2010, no. 3, p. 39**
We recommend that the Department of Employment and Immigration enforce compliance with the *Occupational Health and Safety Act* by employers and workers who persistently fail to comply.

**Occupational Health and Safety: Work Safe Alberta planning and reporting—April 2010, p. 43**
We recommend that the Department of Employment and Immigration improve its planning and reporting systems for occupational health and safety by:

- obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks
- completing the current update of the *Work Safe Alberta Strategic Plan*
- measuring and reporting performance of occupational health and safety programs and initiatives that support key themes of the *Plan*

**Occupational Health and Safety: Inspection systems—April 2010, p. 46**
We recommend that the Department of Employment and Immigration strengthen its proactive inspection program by improving risk focus and coordinating employer selection methods for its inspection initiatives.

**Occupational Health and Safety: Certificate of Recognition—April 2010, p. 48**
We recommend that the Department of Employment and Immigration improve its systems to issue Certificates of Recognition by:

- obtaining assurance on work done by Certificate of Recognition auditors
- consistently following-up on recommendations made to certifying partners

**Occupational Health and Safety: Legislated permit and certificate programs—April 2010, p. 50**
We recommend that the Department of Employment and Immigration strengthen the legislated permit and certificate programs by improving:

- control over issued asbestos certificates
- processes for approval and monitoring of external training agencies

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Monitoring and enforcement of training providers—October 2008, no. 24, p. 245**
We recommend that the Department of Employment and Immigration improve its monitoring of tuition-based training providers by:

- assessing whether performance expectations are being met
- quantifying tuition refunds that may be owing to the Department
- implementing policies and procedures that outline steps and timelines for dealing with non-compliance problems

**Fraud investigation processes—October 2009, p. 186**
We recommend that the Department of Employment and Immigration improve the processes of its investigation units by:

- defining clear objectives for investigation units
- establishing guidelines for determining when they should undertake a fraud investigation
- providing fraud-specific training for investigation unit staff

**Internal audits and home visits—October 2009, p. 189**
We recommend that the Department of Employment and Immigration improve its processes by developing:
- timelines and strategies to respond to findings arising from internal audits
- a risk-based approach to augment the random sample selection method currently used for internal audits and home visits

## Workers' Compensation Board

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Access and security monitoring—October 2009, p. 192**
We recommend that the Workers' Compensation Board formalize its security monitoring procedures to ensure that security threats to critical information systems are detected in a timely manner.

**Computer access—October 2010, p. 136**
We recommend that the Workers' Compensation Board ensure that access to computer systems is restricted to appropriate staff.

# Energy

## Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Royalty regime: improving annual performance measures—October 2007, no. 11, vol. 1, p. 124**
We recommend that the Department of Energy improve its annual performance measures that indicate royalty regime results.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Documenting potential conflicts of interest—April 2008, p. 57**
We recommend that the Department of Energy follow its own policies and processes by ensuring discussions, conclusions, and actions taken—including the risk-mitigation strategy—when an employee has declared a potential conflict of interest are clearly documented and retained.

**Alberta's bioenergy programs—October 2008, no. 25, p. 255**
We recommend that the Department of Energy:
- undertake and document its analysis to quantify the environmental benefits of potential bioenergy technologies to be supported in Alberta
- establish adherence to the *Nine Point Bioenergy Plan* as a criterion within its bioenergy project review protocol, and require grant applications to indicate the projected environmental benefits of proposed projects
- prior to awarding grants in support of plant construction, require successful applicants to quantify—with a life cycle assessment—the positive environmental impact relative to comparable non-renewable energy products

**Improving processes to prepare financial information—October 2009, p. 197**
We recommend that the Department of Energy improve:
- internal communication processes between the Finance branch and program staff
- quality control processes for the preparation of working papers and financial statements
- the timely completion of accurate financial information

**Sustaining the continued accuracy of the revenue forecast system—October 2009, no. 21, p. 199**
We recommend that the Department of Energy improve the controls and documentation supporting the revenue forecast model to help ensure the continued accuracy of the forecast system.

## Energy Resources Conservation Board

The following recommendation is outstanding and not yet ready for a follow-up audit:

3+ **Liability management for suspension, abandonment and reclamation activities—October 2005, no. 30, p. 173**
We recommend that the Energy Resources Conservation Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

3+ **Information technology control framework—October 2007, no. 24, vol. 2, p. 71**
We recommend that the Energy Resources Conservation Board implement an information technology control framework to mitigate identified risks to the organization.

# Environment

## Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

**Climate change: Monitoring processes—October 2008, no. 10, p. 100**
We recommend that for each major action in the *2008 Climate Change Strategy*, the Ministry of Environment evaluate the action's effect in achieving Alberta's climate change goals.

9— **Climate change: Public reporting—October 2008, no. 11, p. 101**
We recommend that the Ministry of Environment improve the reliability, comparability and relevance of its public reporting on Alberta's success and costs incurred in meeting climate-change targets.

**Climate change: Data quality—October 2009, p. 40**
We recommend that the Department of Environment strengthen its guidance for baseline and compliance reporting by:

- clarifying when uncertainty calculations must be done
- prescribing the minimum required quality standards for data in terms of minimum required frequency of measurement and connection to the period being reported on
- describing the types of data controls that facilities should have in place

**Climate change: Guidance to verifiers of facility baseline and compliance reports—October 2009, no. 3, p. 42**
We recommend that the Department of Environment strengthen its baseline and compliance guidance for verifiers by improving the description of the requirements for:

- the nature and extent of testing required
- the content of verification reports
- assurance competencies

**Climate change: Technical review—October 2009, p. 45**
We recommend that the Department of Environment strengthen its technical review processes by:

- requiring facilities to provide a process map with their compliance reporting and
- ensuring staff document their follow-up activity and decisions in the Department's regulatory database

**Climate change: Use of offsets to meet compliance obligations—October 2009, no. 4, p. 46**
We recommend that the Department of Environment:

- strengthen its offset protocols to have sufficient assurance that offsets used for compliance are valid
- assess the risk of offsets applied in Alberta having been used elsewhere in the world

**Climate change: Outsourced service providers—October 2009, p. 49**
We recommend that the Department of Environment develop controls to gain assurance that data hosted or processed by third parties is complete accurate and secure.

We also recommend that the Department of Environment formalize its agreement with its service provider for the Alberta Emissions Offset Registry.

**Climate change: Error correction threshold—October 2009, p. 50**
We recommend the Department of Environment establish an error correction threshold that considers not only the percentages of emissions or production, but also the dollar impact on the Climate Change and Emissions Management Fund.

**Climate change: Cost-effectiveness of regulatory processes—October 2009, no. 5, p. 51**
We recommend that the Department of Environment assess the cost-effectiveness of the *Specified Gas Emitters Regulation*.

3+ **Financial security for land disturbances—October 2009, no. 23, p. 207 (repeated two times since October 1999)**
We again recommend that the Department of Environment implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Department regulates.

**Managing Alberta's Water Supply: Backlog of Water Act applications—April 2010, no. 4, p. 65**
We recommend that the Department of Environment minimize the backlog of outstanding applications for *Water Act* licences and approvals.

**Managing Alberta's Water Supply: Assessing compliance with the Water Act—April 2010, no. 5, p. 68**
We recommend that the Department of Environment ensure its controls provide adequate assurance that performance in the field by licence and approval holders as well as others complies with the *Water Act*.

**Managing Alberta's Water Supply: Wetland compensation—April 2010, no. 6, p. 71**
We recommend that the Department of Environment formalize its wetland compensation relationships and control procedures.

**Managing Alberta's Water Supply: Watershed Planning and Advisory Councils grants and contracts—April 2010, no. 7, p. 73**
We recommend that the Department of Environment strengthen its control of grants and contracts with Watershed Planning and Advisory Councils.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

3+ **Drinking water: Approvals and registrations—October 2006, no. 1, vol. 1, p. 37**
We recommend that the Department of Environment make its system to issue approvals and registrations more effective by:
- strengthening supporting processes such as training, manuals, checklists, and quality control for approvals and registrations
- ensuring that applications are complete and legislatively compliant
- documenting important decisions in the application and registration processes
- processing applications and conversions promptly
- maintaining consistency in the wording of approvals and registrations across the province, and
- following up short-term conditions in approvals

3+ **Drinking water: Inspection system—October 2006, no. 2, vol. 1, p. 43**
We recommend that the Department of Environment improve its drinking water inspection processes by:
- applying the same inspection frequency targets to all waterworks regulated by the *Environmental Protection and Enhancement Act*
- ensuring inspectors receive sufficient training in waterworks systems and operations
- revising documentation tools and practices, including making them more risk focused, and
- informing operators promptly of inspection results, ensuring operators respond appropriately and concluding on each inspection

**Drinking water: Communicating with partners—October 2006, vol. 1, p. 48**
We recommend that the Department of Environment at the district level expand its communication with partners involved in drinking water matters.

3+ **Drinking water: Information systems—October 2006, no. 4, vol. 1, p. 52**
We recommend that the Department of Environment improve the information systems used to manage its drinking water businesses by:
- updating the Environmental Management System forms and improving reporting capacity
- coordinating regional, district, and personal information systems to avoid overlap and encourage best practice, and
- using data to improve program effectiveness and efficiency

3+ **Drinking water: Supporting drinking water goals—October 2006, no. 5, vol. 1, p. 55**
We recommend that the Department of Environment ensure that its legislation, programs, and practices support its new drinking water goals. This includes:
- clarifying how approvals will move facilities towards current standards
- delivering central initiatives that enhance the drinking water program
- determining how the Department should promote policy initiatives such as regionalization, including the financing of those initiatives
- establishing how the Department can partner with others while mitigating the risks inherent in partnering, and
- reinforcing a "beyond compliance" mindset with Department staff

3+ **Water well drilling—October 2006, no. 28, vol. 2, p. 84**
We recommend that the Department of Environment improve its system to regulate water well drilling by:
- ensuring that drillers and drilling companies meet approval requirements
- implementing controls to ensure that water well drilling reports are:
- received on time
- complete and accurate, and
- accurately entered into the Groundwater Information System
- obtaining assurance that water well drilling activities in the field meet legislated standards

**Climate change: Planning—October 2008, no. 9, p. 97**
We recommend that the Ministry of Environment improve Alberta's response to climate change by:
- establishing overall criteria for selecting climate-change actions
- creating and maintaining a master implementation plan for the actions necessary to meet the emissions-intensity target for 2020 and the emissions-reduction target for 2050
- corroborating—through modeling or other analysis—that the actions chosen by the Ministry result in Alberta being on track for achieving its targets for 2020 and 2050

**Improve and document grant monitoring activities—October 2010, no. 15, p. 143**
We recommend that the Department of Environment improve its monitoring of compliance with conditions in grant agreements and retain evidence of the review.

**Clarify what are valid regulatory expenses—October 2010, p. 144**
We recommend that the Department of Environment clarify the kind and extent of regulatory expenses that can be paid out of the Climate Change and Emissions Management Fund.

## Finance and Enterprise

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

**Obtaining assurance on third party service providers—October 2007, vol. 2, p. 87**
We recommend that the Tax and Revenue Administration Division of the Ministry of Finance ensure that controls over Ministry information assets hosted or administered by third party service providers are documented and operating effectively.

**Oversight of financial institutions: Improve accountability—April 2010, no. 12, p. 96**
We recommend that the Department of Finance and Enterprise clarify its business objectives for Alberta Treasury Branches, within their Memorandum of Understanding, in relation to the level of risk the Department expects Alberta Treasury Branches to take.

**Oversight of financial institutions: Completion of risk assessments—April 2010, p. 100**
We recommend that the Department of Finance and Enterprise complete risk assessments and evaluate the quality of the regulated entities' risk management practices.

**Oversight of financial institutions: Monitoring legislative compliance—April 2010, no. 14, p. 101**
We recommend that the Department of Finance and Enterprise strengthen its processes to ensure identified legislative non-compliance matters are remediated.

**Oversight of financial institutions: Improve transparency—April 2010, p. 102**
We recommend that the Department of Finance and Enterprise:
- clearly identify which guidelines and supervisory rules are applicable for the regulated entities
- develop processes to monitor compliance with the guidelines
- assess how risks are mitigated for those guidelines and supervisory rules that are not applicable

**The government's revenue forecasting system: Improve financial reporting processes—October 2010, no. 16, p. 150**
We recommend that the Department of Finance and Enterprise improve its year-end financial reporting processes.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**The government's revenue forecasting system: Rates of return used to forecast investment income—October 2007, vol. 1, p. 142**
We recommend that the Department of Finance incorporate the return from active management of the Alberta Heritage Savings Trust Fund in the forecast of investment income.

**The government's revenue forecasting system: Personal income tax forecast—October 2007, vol. 1, p. 143**
We recommend that the Department of Finance improve its method for estimating historical personal income growth used to forecast personal income tax revenues.

3+ **The government's revenue forecasting system: Corporate income tax forecast—October 2007, no. 14, vol. 1, p. 145**
We recommend that the Department of Finance improve its model for estimating corporate taxable income.

3+ **The government's revenue forecasting system: Public reporting of revenue forecasts—October 2007, no. 16, vol. 1, p. 149**
We recommend that the Department of Finance enhance the public reporting of revenue forecasts by:
- explaining the difference between the government's non-renewable resource revenue forecast and those of other private sector forecasters
- disclosing investment income sensitivity to changes in rate of return earned on equity investments
- explaining the expected range for the government's total revenue forecast including the reasonability of previous forecasts

**User access—October 2008, p. 272**
We recommend that the Department of Finance and Enterprise review all user access to business data to ensure that unauthorized changes are prevented and appropriate incident monitoring exists to ensure systems issues are promptly resolved.

**Quality control process over review of information in the annual report—October 2009, p. 214**
We recommend that the Department of Finance and Enterprise improve its quality control review process over the financial statements information in the Ministry annual report.

**Contract agreements—October 2009, p. 216**
We recommend that the Department of Finance and Enterprise have signed contract agreements in place before goods or services are supplied.

**Implementation plan for regulatory and supervisory frameworks—April 2010, no. 13, p. 97**
We recommend that the Department of Finance and Enterprise develop an implementation plan for its approach to regulating and supervising regulated financial institutions.

## Alberta Capital Finance Authority

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Additional skilled resources required—April 2009, p. 103**
We recommend that management of Alberta Capital Finance Authority secure additional skilled resources to help implement new required financial accounting standards and to ensure the cost-effective preparation and management review of its annual financial statements.

## Alberta Investment Management Corporation

The following recommendations are outstanding and are not yet ready for follow-up audits:

**Access and change management controls—October 2007, vol. 2, p. 93**
We recommend that the Alberta Investment Management Corporation establish access and change management controls for its investment-related computer information systems.

**Internal control certification—October 2008, no. 32, p. 282**
We recommend that the Alberta Investment Management Corporation introduce a process to prepare to internal control certification by:
- ensuring that its strategic plan includes internal control certification
- developing a top-down, risk-based process for internal control design
- selecting an appropriate internal control risk-assessment framework
- considering sub-certification processes, with direct reports to the chief executive officer and chief financial officer providing formal certification on their areas of responsibility
- ensuring that management compensation systems incorporate the requirement for good internal control
- using a phased approach to assess the design and operating effectiveness of internal controls

**Help clients meet financial reporting requirements—October 2010, no. 17, p. 156**
We recommend that the Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

**Improve controls over investment general ledger—October 2010, no. 18, p. 157**
We recommend that the Alberta Investment Management Corporation implement additional control procedures so that the Corporation itself can ensure the completeness and accuracy of its Genvest investment general ledger.

**Strengthen information technology change management controls—October 2010, p. 158**
We recommend that the Alberta Investment Management Corporation strengthen its information technology change management controls to ensure that it adequately assesses the risks of changes, and does not make changes outside of the change management process.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Coordination with the Department of Finance and Enterprise—October 2009, p. 235**
We recommend that the Alberta Investment Management Corporation work with the Department of Finance and Enterprise to:

- record all financial statement accounting adjustments in the investments general ledger on a timely basis
- coordinate the timing of private investment valuations so that valuation updates to the investments general ledger are entered before the Department performs its quarterly write-down analysis

**Financial statements—October 2009, p. 236**
We recommend that the Alberta Investment Management Corporation improve its processes and internal controls to achieve completeness, accuracy and increased efficiency in financial reporting.

## Alberta Treasury Branches

The following recommendations are outstanding and not yet ready for follow-up audits:

**Treasury management: Liquidity simulations—October 2008, p. 128**
We recommend that Alberta Treasury Branches further expand its use of liquidity simulations as a forward looking liquidity risk measurement tool. We also recommend that the Asset Liability Committee and the Board Oversight Committee consider whether the results of liquidity simulations indicate a need to modify its business plan.

**Treasury management: Interest rate risk model assumptions—October 2008, p. 132**
We recommend that Alberta Treasury Branches improve processes for creating, applying and validating assumptions used in its interest rate risk models.

**Treasury management: Interest rate risk modeling and stress testing—October 2008, p. 134**
We recommend that Alberta Treasury Branches define its significant interest rate risk exposures and model those significant exposures to assess the effects on future financial results.

**Treasury management: Interest rate risk controls—October 2008, p. 136**
We recommend that Alberta Treasury Branches put in place controls necessary to ensure consistent measurement of interest rate risk.

**Treasury management: Role and use of middle office—October 2008, p. 137**
We recommend that Alberta Treasury Branches expand the role of its middle office[1] to include responsibilities for monitoring interest rate risk. We also recommend that management ensure the middle office has the necessary resources to monitor foreign exchange activities and fulfill its other responsibilities.

**Treasury management: Treasury information systems—October 2008, p. 138**
We recommend that Alberta Treasury Branches:

- evaluate its current treasury information systems against its business requirements
- develop and implement a treasury information technology plan to upgrade its tools

**Treasury management: Treasury policies—October 2008, p. 139**
We recommend that Alberta Treasury Branches implement the updated investment and derivatives policies for changes arising from its recent review of those policies. We also recommend that Alberta Treasury Branches review the financial risk management policy.

**Internal control weaknesses—October 2008, no. 29, p. 278**
We recommend that Alberta Treasury Branches validate and approve business processes and internal control documentation developed by its internal control group and implement plans to resolve identified internal control weaknesses.

**Securitization policy and business rules—October 2008, no. 31, p. 280**
We recommend that Alberta Treasury Branches develop and implement a securitization policy and securitization business rules.

**Internal controls—October 2009, p. 221**
We recommend that the Alberta Treasury Branches Strategic Steering Committee receive the appropriate assurance from the project leadership team that the organization's control objectives have been satisfied before the user acceptance testing phase of the project is complete.

**Organization-wide information technology oversight—October 2009, no. 24, p. 222**
We recommend that Alberta Treasury Branches improve the efficiency and effectiveness of its computing environment by developing a process to ensure all Alberta Treasury Branch business units adopt and follow an organization-wide information technology governance and control framework.

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2 The middle office monitors market risk, values securities and derivatives, and ensures compliance with certain treasury limits/policies.

**Service auditor reports: User control considerations—October 2009, p. 227**
We recommend that Alberta Treasury Branches improve its processes related to service providers by ensuring its business areas:

- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end-user controls in place to complement service provider controls

**Improve internal controls over fair value calculations—October 2010, p. 154**
**(repeated once since October 2008)**
We again recommend that Alberta Treasury Branches improve controls over the calculation of the fair value for its derivatives and securities by:

- implementing a peer review and approval process for inputs and assumptions used in the valuation models. Alternatively, for derivatives, management could use a benchmarking process to assess reasonability of its calculated fair values.
- documenting the results of this work consistently

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Improve credit monitoring—October 2010, p. 153**
**(repeated once since October 2008)**
We again recommend that Alberta Treasury Branches promptly update the derivative credit limits disclosed in the *Daily Derivative Credit Exposure Report.*

## Health and Wellness

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

**Accountability of Alberta Health Services[2] to the Minister of Health and Wellness—October 2004, no. 23, p. 197**
We again recommend that the Department of Health and Wellness improve accountability of Alberta Health Services to the Minister by:

- ensuring performance expectations for Alberta Health Services are explicit and accepted by Alberta Health Services
- reviewing and providing feedback to Alberta Health Services on its' progress towards meeting expectations, and
- taking follow-up actions, including rewards and sanctions, to improve the future performance of Alberta Health Services

**Accountability for health care costs: Ministry annual report results analysis—October 2006, no. 31, vol. 2, p. 116**
We recommend that the Ministry of Health and Wellness explain and quantify annually—in its annual report—key factors affecting health care costs.

**Accountability for health care costs—Performance measures—October 2006, no. 32, vol. 2, p. 118**
We recommend that the Ministry of Health and Wellness link health costs to outputs for the Ministry as a whole—in its annual report.

**Analysis of physician billing information—October 2006, no. 33, vol. 2, p. 120**
**(repeated once since October 2001)**
We recommend that the Department of Health and Wellness strengthen its processes to analyze and investigate anomalies in physician billing information.

**Information technology control environment—October 2006, no. 34, vol. 2, p. 123**
**(repeated twice since October 2002)**
We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its information technology environment, and develop and implement an information technology disaster recovery plan.

**Unauthorized network connections—October 2007, vol. 2, p. 105**
We recommend that the Department of Health and Wellness improve its procedures to enforce and monitor compliance with its *Information Security Policy*.

3 Effective April 1, 2009, Alberta Health Services was established, replacing the previous health authorities along with the Alberta Cancer Board, Alberta Mental Health Board and the Alberta Alcohol and Drug Abuse Commission. We have replaced the names in this listing of the health authorities and other boards which received the original recommendations with Alberta Health Services—the organization which is now responsible for implementing these recommendations.

**Implementing the Provincial Mental Health Plan—The accountability framework—April 2008, no. 4, p. 77**
We recommend that the Department of Health and Wellness ensure there is a complete accountability framework for the *Provincial Mental Health Plan* and mental health services in Alberta.

**Compliance monitoring activities—October 2008, no. 35, p. 300**
We recommend that the Department of Health and Wellness complete a comprehensive risk assessment and develop a risk based plan to improve the effectiveness of its compliance-monitoring activities.

**Electronic health records: Project management—October 2009, no. 7, p. 75**
We recommend the Department of Health and Wellness execute publicly funded electronic health record projects and initiatives in accordance with established project management standards.

**Electronic health records: Monitoring the electronic health records—October 2009, no. 8, p. 78**
We recommend the Department of Health and Wellness proactively monitor access to the portal (Netcare), through which the electronic health records can be viewed, reviewing it for potential attacks, breaches and system anomalies.

**Electronic health records: User access management—October 2009, p. 80**
We recommend that the Department of Health and Wellness ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.

**Accountability for conditional grants—October 2009, p. 252**
**(repeated twice since October 2002)**
We again recommend that the Department of Health and Wellness improve its control processes to ensure accountability for conditional grants.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Monitoring infection prevention and control processes (compliance monitoring activities)—October 2009, p. 248**
We recommend that the Department of Health and Wellness examine and clarify the role of its Compliance Assurance Branch in the implementation and execution of infection prevention and control compliance monitoring in Alberta.

## Health and Wellness and Agriculture and Rural Development

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Food Safety: Integrated food safety planning and activities—October 2009, no. 11, p. 107**
**(repeated once since October 2006)**
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development, in cooperation with Alberta Health Services and federal regulators, improve planning and coordination of food safety activities and initiatives. This includes:

- each provincial ministry defining its own food safety policies, objectives and measures (satisfactory progress)
- coordinating provincial food safety policies and planning so initiatives are integrated (satisfactory progress)
- ensuring provincial approaches align with initiatives being developed through federal/provincial/territorial committees (satisfactory progress)
- improving day-to-day coordination of provincial food safety activities
- encouraging the joint application of HACCP and HACCP related programs in Alberta, and (satisfactory progress)
- improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Branch and the Canadian Food Inspection Agency

3+ **Food safety: Accountability—October 2009, no. 13, p. 114**
**(repeated once since October 2006)**
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development improve reporting on food safety in Alberta.

## Health and Wellness, Agriculture and Rural Development and Alberta Health Services

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

3+ **Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111**
**(repeated once since October 2006)**
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the *Meat Facility Standard*
- coordinating inspections in the "non-federally registered" sector

## Departments of Health and Wellness and Alberta Health Services

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Seniors care: Effectiveness of services in long-term care facilities—October 2005, no. 7, p. 59**
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the Department of Seniors and Community Supports, assess the effectiveness of services in long-term care facilities.

3+ **Seniors care: Effectiveness of services in long-term care facilities—October 2005, no. 8, p. 59**
We recommend that the Department of Health and Wellness, working with the Department of Seniors and Community Supports, collect sufficient information about facility costs from Alberta Health Services and long-term care facilities to make accommodation rate and funding decisions.

**Implementing the Provincial Mental Health Plan: Implementation systems—April 2008, no. 3, p. 72**
We recommend that the Department of Health and Wellness, working with other mental health participants, strengthen implementation of the *Provincial Mental Health Plan* by improving:

- implementation planning
- the monitoring and reporting of implementation activities against implementation plans, and
- the system to adjust the *Plan* and implementation initiatives in response to changing circumstances

**Mental health: Standards—October 2008, no. 16, p. 162**
We recommend that the Department of Health and Wellness and Alberta Health Services create provincial standards for mental health services in Alberta.

**Mental health: Funding, planning, and reporting—October 2008, p. 186**
We recommend that the Department of Health and Wellness and Alberta Health Services ensure the funding, planning, and reporting of mental health services supports the transformation outlined in the *Provincial Mental Health Plan* as well as system accountability.

**Mental health: Aboriginal and suicide priorities—October 2008, p. 190**
We recommend that the Department of Health and Wellness and Alberta Health Services consider whether the implementation priority for aboriginal and suicide issues is appropriate for the next provincial strategic mental health plan.

**Electronic health records: Oversight and accountability for electronic health records—October 2009, no. 6, p. 73**
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the Electronic Health Records Governance Committee, improve the oversight of electronic health record systems by:

- maintaining an integrated delivery plan that aligns with the strategic plan
- improving systems to regularly report costs, timelines, progress and outcomes

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Seniors care: Compliance with Basic Service Standards—October 2005, no. 6, p. 58**
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the
3+ Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the *Basic Service Standards*.

**Seniors care: Information to monitor compliance with legislation—October 2005, p. 61**
We recommend that the Department of Health and Wellness, working with Alberta Health Services and the Department of Seniors and Community Supports, identify the information required from long-term care facilities to enable the Departments and Authorities to monitor their compliance with legislation.

3+ **Seniors care: Determining future needs for services in long-term care facilities—October 2005, no. 9, p. 62**
We recommend that the Department of Health and Wellness, working with Alberta Health Services and the Department of Seniors and Community Supports, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommend that the Departments publicly report on progress made towards goals in the plan.

**Seniors care: Determining future needs for services in long-term care facilities—October 2005, p. 62**
We recommend that the Department of Health and Wellness require Alberta Health Services to periodically update and report on progress implementing their ten year continuing care strategic service plans.

**Food safety: Tools to promote and enforce food safety—October 2006, vol. 1, p. 83**
We recommend that Alberta Health Services and the Department of Health and Wellness consider a wider range of tools to promote and enforce food safety.

## Alberta Health Services

The following recommendations are outstanding and not yet ready for follow-up audits:

**Mental health: Housing and supportive living—October 2008, no. 17, p. 164**
We recommend that Alberta Health Services encourage mental health housing development and provide supportive living programs so mental health clients can recover in the community.

**Mental health: Concurrent disorders—October 2008, no. 18, p. 168**
We recommend that Alberta Health Services strengthen integrated treatment for clients with severe concurrent disorders (mental health issues combined with addiction issues).

**Mental health: Not-for-profit organizations—October 2008, p. 169**
We recommend that Alberta Health Services improve relationships with not-for-profit organizations to provide better coordinated service delivery.

**Mental health: Gaps in service—October 2008, no. 19, p. 171**
We recommend that Alberta Health Services reduce gaps in mental health delivery services by enhancing:
- mental health professionals at points of entry to the system
- coordinated intake
- specialized programs in medium-sized cities
- transition management between hospital and community care

**Mental health: Provincial coordination—October 2008, p. 176**
We recommend that Alberta Health Services coordinate mental health service delivery across the province better by:
- strengthening inter-regional coordination
- implementing standard information systems and data sets for mental health
- implementing common operating procedures
- collecting and analyzing data for evidence-based evaluation of mental health programs

**Mental health: Community-based service delivery—October 2008, p. 181**
We recommend that Alberta Health Services strengthen service delivery for mental health clients at regional clinics by improving:
- wait time management
- treatment plans, agreed with the client
- progress notes
- case conferencing
- file closure
- timely data capture on information systems
- client follow up and analysis of recovery

**Expense claims and corporate credit cards controls—October 2008, p. 311**
We recommend that Alberta Health Services strengthen and follow its policies and processes for employee expense claims and corporate credit cards. We also recommend that Alberta Health Services develop and implement policies and guidance on appropriate expenses for hosting and working sessions.

8 3+ **Food safety: Inspection programs—October 2009, no. 9, p. 93**
**(repeated once since October 2006)**
We again recommend that Alberta Health Services improve their food establishment inspection programs. Specifically, Alberta Health Services should:
- inspect food establishments following generally accepted inspection frequency standards
- ensure that inspections are consistently administered and documented
- follow up critical violations promptly to ensure that food establishments have corrected those violations
- use their enforcement powers to protect Albertans from the highest risk food establishments (satisfactory progress)

3+ **Food safety: Information systems—October 2009, no. 10, p. 99**
**(repeated once since October 2006)**
We again recommend that Alberta Health Services, supported by the Department of Health and Wellness, improve their automated food safety information systems. This includes:
- enhancing system management, security, and access control
- ensuring data consistency
- ensuring that service level agreements are in place
- developing reporting capacity for management and, accountability purposes

**Supplementary retirement plans—October 2009, no. 28, p. 260**
We recommend that Alberta Health Services review existing supplementary retirement plans and:
- understand the terms and conditions for each plan
- develop clear and consistent policies and processes for administering them
- obtain actuarial valuations, using appropriate and consistent assumptions, for the plans
- understand the impact of funding options
- ensure sufficient funds are available to meet plan obligations

**Information technology control policies and processes—October 2009, no. 29, p. 262**[1]
We recommend that Alberta Health Services:
- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

**Capital project monitoring systems—October 2009, no. 32, p. 271**
We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:
- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to Executive Management and the Audit and Finance Committee

**Expenditure policies and approvals—October 2009, p. 277**
We recommend that Alberta Health Services improve the efficiency and effectiveness of its expense approval controls by:
- developing and implementing a clear and comprehensive expenditure approval policy
- automating the expenditure controls within the purchasing system

**Approval of drug purchases—October 2009, p. 278**
We recommend that Alberta Health Services improve controls for drug purchases by ensuring they are properly approved and duties are appropriately segregated.

**Financial operations transition plan—October 2010, no. 19, p. 164**
We recommend that Alberta Health Services prepare and implement a formal transition plan for the organization's finance operations. The plan should include and integrate the following:
- assessing the resources, timelines and critical path needed to consolidate the general ledger and sub-ledger systems
- ensuring rigorous change management controls are applied before implementing application system changes
- harmonizing financial reporting policies and processes across the organization
- determining the adequate amount of human resources and skill levels required to implement the plan and then keep the processes operational

**Effectiveness of insurance reciprocal—October 2010, no. 21, p. 167**
We recommend that Alberta Health Services assess the effectiveness of its arrangement with the *Liability and Property Insurance Plan* as a risk management tool, and assess the resulting accounting implications.

**Accounting for restricted contributions—October 2010, no. 22, p. 168**
We recommend that Alberta Health Services implement consistent and efficient accounting processes for externally restricted contributions to assure the Alberta Health Services Board that it is complying with the restrictions attached to those contributions.

**Year-end financial reporting processes—October 2010, no. 23, p. 169**
**(repeated once since October 2009)**
We again recommend that Alberta Health Services improve its year-end financial reporting processes by improving processes to identify and resolve key accounting risks and reporting issues on a timely basis.

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4 The implementation of this recommendation will also implement the following recommendations:
- Calgary Health Region: Inappropriate user access—October 2007, vol. 2, no. 29, p. 113
- Alberta Cancer Board: Controls over access to computer applications—October 2007, vol. 2, p. 115
- Alberta Alcohol and Drug Abuse Commission: General computer controls—October 2007, vol. 2, p. 116
- Calgary Health Region: Information technology change management controls—October 2008, p. 306
- Calgary Health Region: Information technology user access management controls—October 2008, p. 307
- Capital Health: Information technology security controls—October 2008, p. 308
- Capital Health Authority: Information technology change management controls—October 2008, p. 309
- Peace Country Health: Information technology user access—October 2008, p. 313

## Outstanding Recommendations

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Performance measures for surgical services—October 2001, p. 135**
We recommend that Alberta Health Services establish a comprehensive set of outcome-based performance measures for surgical facility services and incorporate these standards of performance into ongoing monitoring of contracted facilities.

3+ **Contracting practices: Internal controls—November 2006, no. 1, p. 14**
We recommend that Alberta Health Services management improve controls over contracting by:
- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

3+ **Contracting practices: Board governance—November 2006, no. 3, p. 17**
We recommend that the Board, at least annually, receive reports from management on the design and effectiveness of the Alberta Health Services internal controls.

**Contract documentation—October 2008, p. 312**
We recommend that Alberta Health Services develop and implement a sole-sourcing policy for contracts and ensure that sole-sourcing is clearly documented and justified. We also recommend Alberta Health Services—Peace Country Health ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

**Physician recruitment incentives—October 2009, p. 279**
We recommend that Alberta Health Services improve controls for physician recruitment incentives by developing and implementing a policy that identifies:
- criteria and approvals required for granting loans, income guarantees and relocation allowances
- monitoring and collection procedures for physician loans

**Capital project funding and approval—October 2009, no. 31, p. 269**
We recommend that Alberta Health Services:
- obtain appropriate approval from the Minister of Health and Wellness and secure adequate capital funding before starting capital projects that are internally funded or debt financed
- ensure budgets include the estimated future operating costs associated with new capital

8— **Funding agreements for capital projects—October 2010, no. 20, p. 166**
We recommend that Alberta Health Services ensure that funding agreements are signed prior to commencement of construction of capital projects, and are formally amended when there are significant changes in the scope of a capital project.

### Alberta Health Services, Health and Wellness and Agriculture and Rural Development

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

3+ **Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111 (repeated once since October 2006)**
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:
- mobile butchers
- consistently administering the *Meat Facility Standard*
- coordinating inspections in the "non-federally registered" sector

## Housing and Urban Affairs

### Department

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Direct rent supplement program payments—October 2009, p. 283**
We recommend that the Department of Housing and Urban Affairs improve its monitoring processes of direct rent supplement payments issued by management bodies, by requiring periodic reviews of these payments.

## Infrastructure

### Ministry

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Information technology risk—October 2009, p. 287**
We recommend that the Ministry of Infrastructure develop and implement an information technology risk management framework.

## Departments of Infrastructure and Treasury Board

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Alberta schools alternative procurement: Transparency—April 2010, no. 2, p. 24**
We recommend that the Departments of Treasury Board and Infrastructure follow their own guidance to publish a value for money report upon entering into a public private partnership agreement.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Alberta schools alternative procurement: Challenging and supporting assumptions—April 2010, no. 1, p. 22**
We recommend that the Departments of Treasury Board and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

## International and Intergovernmental Affairs

### Ministry

The following recommendations are outstanding and not yet ready for a follow-up audit:

**Evaluating international offices' performance—October 2008, p. 324**
We recommend that the Ministry of International and Intergovernmental Relations improve the processes management uses to evaluate the performance of each international office.

**Ensuring effective information-system controls—October 2008, p. 326**
We recommend that the Ministry of International and Intergovernmental Relations obtain assurance that information-system controls are effective at the international offices and that relevant Government of Alberta information technology policies and standards are being met.

## Justice and Attorney General

### Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Access controls—October 2009, p. 295**
We recommend that the Department of Justice obtain assurance that organizations provided access to the Justice On-line Information Network are following the Department's policies and procedures for granting user access.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Motor vehicle accident program: Clarifying collection steps—October 2009, no. 33, p. 293**
We recommend that the Department of Justice clarify the collection steps for judgments assigned to it under the Motor Vehicle Accident program.

### Office of the Public Trustee

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**New vendor set-up—October 2010, no. 24, p. 180**
We recommend that the Office of the Public Trustee improve controls for inputting new vendors in its Public Trustee Information System.

**Recurring payments—October 2010, p. 180**
We recommend that the Office of the Public Trustee improve its controls for issuing and stopping recurring payments.

## Municipal Affairs

### Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

**ME first! program—October 2008, no. 37, p. 335**
We recommend that the Department of Municipal Affairs assess the effect on greenhouse gas emissions of the energy savings that resulted from the projects funded by the Department's ME first! program and that the Department report the lessons learned from this program to the Departments involved in creating climate change programs.

**Disaster recovery program—October 2009, no. 34, p. 301**
We recommend that the Department of Municipal Affairs improve its management of the disaster recovery program by:

- setting timelines for key steps that must be performed before federal government funding can be received
- periodically assessing and adjusting costs and recovery estimates based on current information

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**User access to information systems—October 2010, p. 183**
We recommend that the Department of Municipal Affairs improve its procedures for granting and removing user access to its business applications, and ensure those procedures are followed.

## Seniors and Community Supports

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Seniors care: Effectiveness of Seniors Lodge Program—October 2005, no. 12, p. 66**
We recommend that the Department of Seniors and Community Supports:

1. improve the measures it uses to assess the effectiveness of the Seniors Lodge Program
2. obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges

**Seniors care: Determining future needs for Alberta Seniors Lodge Program—October 2005, p. 67**
We recommend that the Department of Seniors and Community Supports improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program.

**General computer controls—October 2007, vol. 2, p. 143**
We recommend that the Ministry of Seniors and Community Supports improve general computer controls by:

- identifying and protecting data based on its sensitivity
- following change management procedures
- reviewing database logs, and
- reviewing user access to applications

### Persons with Developmental Disabilities Boards

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Contract monitoring and evaluation—October 2004, no. 9, p. 111**
We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to strengthen the monitoring and evaluation of the performance of service providers by:

- requiring individual funding service providers to provide adequate financial reporting
- obtaining annual financial statements to evaluate the financial sustainability of critical service providers
- implementing a sustainable, risk-based internal audit plan
- developing and implementing standard procedures to be followed when Community Board staff are in contact with service providers; and
- implementing a method to evaluate service provider performance

## Service Alberta

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Contracting policies and procedures—October 2004, no. 20, p. 177**
We recommend that the Service Alberta:

- develop comprehensive contracting policies and procedures
- train staff on how to follow the policies and procedures
- monitor staff compliance with the policies and procedures

**Information technology service level agreements between Service Alberta and its client ministries—October 2007, no. 32, vol. 2, p. 146**
We recommend that the Ministry of Service Alberta, working with its client ministries, revise their information technology service level agreements to:

- ensure that the agreements are current
- clarify the level of services provided in each service category
- define the roles and responsibilities of each party

**Guidance to implement information technology control frameworks—April 2008, no. 7, p. 170**
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, develop and promote:

- a comprehensive information technology control framework, and accompanying implementation guidance, and
- well-designed and cost-effective information technology control processes and activities.

**Protecting information assets: Central security office—October 2008, no. 4, p. 53**[4]
To secure the Government of Alberta's information, we recommend that Service Alberta ensures that a central security office is immediately established to oversee (develop, communicate, implement, monitor and enforce) all aspects of information security for organizations using the government's shared information–technology infrastructure.

**Protecting information assets: Review and improve the Government of Alberta's shared computing infrastructure policies, procedures, and standards—October 2008, no. 6, p. 68**
We recommend that the Ministry of Service Alberta work with all ministries and through the Chief Information Officer Council, to develop and implement policies, procedures, standards, and well-designed control activities for the Government of Alberta's shared computing network.

**Protecting information assets: Wireless policies and standards—October 20[illegible], p. 75**
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, update its existing *Wireless LAN Access Security Policy* to provide clearer guidance to ministries in deploying and securing wireless-network-access points.

**Protecting information assets: Device configurations—October 2008, p. 76**
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, review the configuration of laptops, and approve policies to prevent laptops from inadvertently exposing the government environment.

**Protecting information assets: Ongoing monitoring and surveillance—October 2008, no. 7, p. 77**
We recommend the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, update network surveillance methods to detect and investigate the presence of unauthorized wireless access points within the Government of Alberta.

**Protecting information assets: Backup power supplies—October 2008, p. 85**
We recommend that the Ministry of Service Alberta, work in conjunction with all ministries and through the Chief Information Officer Council, to ensure that ministries that use data facilities ensure that connected computer equipment has a sufficient redundant power supply.

**Protecting information assets: Physical security—October 2008, no. 8, p. 87**
We recommend that the Ministry of Service Alberta work with the Ministry of Infrastructure, in conjunction with all ministries and through the Chief Information Officer Council, to improve:
- physical security controls at data facilities
- logging of access to data facilities by implementing effective controls to track access

**Protecting information assets: Environmental security—October 2008, p. 89**
We recommend that Ministry of Service Alberta work with ministries to improve the environmental security controls at shared data facilities.

**Service Alberta's role as a central processor of transactions—October 2008, no. 38, p. 345**
We recommend that the Ministry of Service Alberta consider providing internal control assurance to its client ministries on its centralized processing of transactions.

**Access- and security-monitoring of application systems—October 2008, p. 346**
We recommend that the Ministry of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

**System-conversion process—October 2008, p. 349**
We recommend that the Ministry of Service Alberta document its review of actual system-conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.

**Information technology resumption plan—October 2009, no. 35, p. 311**
We recommend that the Ministry of Service Alberta complete and test an information technology resumption plan.

**Payroll review processes—October 2009, p. 312**
We recommend that the Ministry of Service Alberta improve its process to provide timely supporting documentation on payroll information that it maintains for itself and its client ministries.

5 Recommendation originally made to Executive Council. Both entities agreed that Service Alberta would assume responsibility for implementation.

**Land titles registration system: Analyzing land titles data—April 2010, p. 110**
We recommend that the Department of Service Alberta improve its ability to detect fraudulent transactions and mitigate the risk of property fraud by:

- conducting regular analysis of land title data for suspicious transactions
- using the results of data analysis to focus investigations and prosecutions
- providing information about suspicious activities to Department staff to assist them in the exercise of their new legislative authority

**Protecting information assets: Web application controls—October 2010, no. 7, p. 78 (repeated once since October 2008)**
We again recommend that Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, develop and implement well designed and effective controls to ensure all Government of Alberta web applications consistently meet all security standards and requirements.

**Access to motor vehicle registration data—October 2010, p. 189**
We recommend that the Ministry of Service Alberta strengthen its control over granting user access to its motor vehicles system.

## Solicitor General and Public Security

### Department

The following recommendations are outstanding and not yet ready for follow-up audits:

**Oversight of peace officers: Follow-up of compliance audit report recommendations—April 2010, no. 15, p. 120**
We recommend that the Department of Solicitor General and Public Security improve its processes to monitor and ensure employers implement its compliance audit recommendations by:

- developing, maintaining and monitoring a database of the implementation status of all audit recommendations
- requiring timely written confirmation of compliance from employers
- ensuring files on employers are properly maintained
- taking necessary and timely action against non-compliant employers

**Oversight of peace officers: Processes to conduct compliance audits—April 2010, p. 122**
We recommend that the Department of Solicitor General and Public Security:

- use a risk-based approach in future audit cycles for selecting on-site employer compliance audits
- better document compliance audit files, including documenting audit findings, identifying auditors performing the work and demonstrating sufficient oversight

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Oversight of peace officers: Monitoring employers' investigations of peace officers—April 2010, no. 16, p. 125**
We recommend that the Department of Solicitor General and Public Security improve monitoring of employers' investigations of complaints made against peace officers by:

- following current policy and best practices, including managerial approval of concluded files, and implementing proper filing procedures
- providing written notification to an employer when closing a file
- better maintaining its databases

## Sustainable Resource Development

### Department

The following recommendations are outstanding and not yet ready for follow-up audits:

**Reforestation: Monitoring and enforcement—October 2006, no. 15, vol. 1, p. 122**
We recommend that the Department of Sustainable Resource Development strengthen its monitoring of reforestation activities by:

- bringing more rigour to the review of forestry operator plans
- making its field inspection program more effective
- promptly identifying and correcting non-compliance with legislation

**Controls over revenue—October 2008, no. 39, p. 355**
We recommend that the Department of Sustainable Resource Development put processes in place to allow significant revenues currently recorded when cash is received to be recorded when revenue is due to the Crown.

**Sand and gravel: Enforcement of reclamation obligations—October 2008, no. 40, p. 360**
We recommend that the Department of Sustainable Resource Development improve processes for inspecting aggregate holdings on public land and enforcing land reclamation requirements.

**Sand and gravel: Flat fee security deposit—October 2008, no. 41, p. 362**
We recommend that the Department of Sustainable Resource Development assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

**Sand and gravel: Quantity of aggregate removed—October 2008, p. 364**
We recommend that the Department of Sustainable Resource Development develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

**Sand and gravel: Information management—October 2008, p. 366**
We recommend that the Department of Sustainable Resource Development capture and consolidate information throughout the life of an aggregate holding and use it to test compliance with legal obligations.

3+ **Reforestation: Performance information—April 2009, no. 2, p. 52**
**(repeated once since October 2006)**
We again recommend that the Department of Sustainable Resource Development publicly report relevant and sufficient reforestation performance information to confirm the effectiveness of its regulatory systems.

**Information technology control framework—October 2009, p. 323**
We recommend the Department of Sustainable Resource Development improve policies and processes in its information technology control environment.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Leases and sales—October 2007, vol. 2, p. 161**
We recommend that the Department of Sustainable Resource Development develop a guideline for lease and sale of land indicating when and with whom to consult.

**Land sale agreements—October 2007, vol. 2, p. 162**
We recommend that the Department of Sustainable Resource Development establish a guideline to not sell public land until the lessee is in compliance with key lease requirements.

3+ **Requests for proposals—October 2007, no. 33, vol. 2, p. 163**
We recommend that the Department of Sustainable Resource Development evaluate whether government objectives could be met by introducing requests for proposals from all interested parties whenever an entity applies to put substantial improvements on public land.

## Tourism, Parks and Recreation

### Ministry and Culture and Community Spirit

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Computer control environment—October 2007, vol. 2, p. 172**
We recommend that the Ministry of Tourism, Parks, Recreation and Culture[5] work with Service Alberta to:

- document the services that Service Alberta is to provide and its control environment for information technology
- implement a process to ensure that Service Alberta consistently meets service level and security requirements
- provide evidence that control activities maintained by Service Alberta are operating effectively

## Transportation

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

3+ **Commercial and motor vehicle inspection programs—October 2004, no. 29, p. 301**
We recommend that the Ministry of Transportation strengthen its monitoring processes for Commercial Vehicle Inspection Program and Motor Vehicle Inspection Program by:

- documenting policies, procedures and management's expectations of the vehicle safety investigators to ensure that they perform their functions appropriately and consistently
- developing a reporting process to allow senior management to enhance the assessment of the effectiveness of the programs

6 Now known as Culture and Community Spirit.

**Commercial vehicle safety: Inspection tools and vehicle selection—October 2009, p. 124**
We recommend that the Department of Transportation improve its inspection capability by incorporating risk analysis into the selection of vehicles for roadside inspection and increasing the amount of information available at roadside.

**Commercial vehicle safety: Progressive sanctions—October 2009, no. 14, p. 127**
We recommend that the Department of Transportation strengthen enforcement processes relating to, or arising from, roadside inspections.

**Commercial vehicle safety: Analysis and measurement—October 2009, no. 15, p. 129**
We recommend that the Department of Transportation further develop and improve its data analysis practices for use in program delivery and performance measure reporting.

**Information technology risk assessment—October 2009, p. 329**
We recommend that the Department of Transportation develop and implement an information technology risk assessment framework.

**Improve processes to value donated assets in the Department financial statements—October 2010, p. 197**
We recommend that the Department of Transportation:

- enter into agreements with donors that:
- provide the Department of Transportation with assurance on the fair value of the donated assets
- specify whether donation receipts will be issued
- document its support for the valuation reported in its financial statements, including the procedures performed, assumptions made and source documents reviewed

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

3+ **Licensing inspection facilities and technicians—October 2004, no. 30, p. 303**
We recommend that the Ministry of Transportation improve the process to license inspection facilities and technicians.

## Treasury Board

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits:

~~8~~ **Government credit cards—October 2007, no. 17, vol. 1, p. 174**
We recommend that the Department of Treasury Board, working with all other departments, further improve
3+ controls for the use of government credit cards by:

1. communicating responsibilities to all cardholders
2. clarifying the support required to confirm both the nature and purpose of transactions
3. providing guidance to senior financial officers and accounting staff on dealing with significant non-compliance

**Inconsistent budgeting and accounting for grants—October 2007, vol. 2, p. 178**
We recommend that the Ministry of Treasury Board, working with other departments, provide guidance to ensure consistent accounting treatment of grants throughout government.

**Chief executive officer compensation disclosure—October 2008, no. 3, p. 32**
We recommend that the Treasury Board consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

**Salary and benefits disclosure—October 2008, p. 371**
We recommend that the Ministry of Treasury Board, through the *Salaries and Benefits Disclosure Directive*, clarify what form of disclosure, under what circumstances, is required of the salary and benefits of an individual in an organization's senior decision making/management group who is compensated directly by a third party.

**Report on selected payments to Members of the Legislative Assembly—Efficiency—October 2008, p. 376**
We recommend that the Department of Treasury Board use current technology to regularly and efficiently compile the material for public reporting.

**Public agencies: Disclosure of termination benefits paid—October 2009, no. 2, p. 29**
We recommend that the Ministry of Treasury Board increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

3+ **Infrastructure needs: Deferred maintenance—October 2010, no. 8, p. 89 (repeated once since October 2007)**
We again recommend that the Department of Treasury Board, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's *Capital Plan*.

3+ **Infrastructure needs: Maintaining assets over their life—October 2010, no. 9, p. 92 (repeated once since October 2007)**
We again recommend that the Department of Treasury Board establish a process that enables public infrastructure assets to be properly maintained over their life.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

3+ **Infrastructure needs: Process to prioritize projects—October 2007, no. 4, vol. 1, p. 57**
We recommend that the Department of Treasury Board improve the process to evaluate proposed infrastructure projects that ministries submit.

3+ **Infrastructure needs: Improving current information—October 2007, no. 5, vol. 1, p. 59**
We recommend that the Department of Treasury Board, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board can be improved.

**Report on selected payments to Members of the Legislative Assembly: Timely—October 2008, p. 377**
We recommend that the President of Treasury Board arrange for all final reviews of the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* to take place within six months of the year end so that the *Report* can be ready for tabling in the Legislative Assembly.

**Government of Alberta and ministry annual reports: Analysis and review of performance measures—October 2009, no. 16, p. 136**
We recommend the Ministry of Treasury Board work with ministries to improve processes at the ministry level relating to analysis and review of performance measures. We also recommend the Ministry of Treasury Board establish a protocol with ministries whereby it is informed of proposed changes by ministries to performance measures methodology in a timely manner.

## Departments of Treasury Board and Infrastructure

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Alberta schools alternative procurement: Transparency—April 2010, no. 2, p. 24**
We recommend that the Departments of Treasury Board and Infrastructure follow their own guidance to publish a value for money report upon entering into a public private partnership agreement.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

**Alberta schools alternative procurement: Challenging and supporting assumptions—April 2010, no. 1, p. 22**
We recommend that the Departments of Treasury Board and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

## Agency Governance Secretariat

The following recommendations are outstanding and not yet ready for follow-up audits:

**Chief executive officer: Guidance—October 2008, no. 1, p. 27**
We recommend that the Deputy Minister of Executive Council through the Agency Governance Secretariat assist agencies and departments by providing guidance in the areas of chief executive officer selection, evaluation and compensation.

**Chief executive officer: Accountability—October 2008, no. 2, p. 29**
We recommend the Agency Governance Secretariat, on behalf of ministers, annually obtain information from agencies on chief executive officer evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to ministers who should then hold boards of directors accountable for their decisions.

**Public agencies: Executive compensation practices—October 2009, no. 1, p. 23**
We recommend that the Deputy Minister of Executive Council, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

## Outstanding Recommendations

AUDITOR GENERAL
*Alberta*

# Reference

Report of the Auditor General of Alberta—April 2011

# Glossary

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| **Accountability** | Responsibility for the consequences of actions. In this report, accountability requires ministries, departments and other entities to:<br>• report their results (what they spent and what they achieved) and compare them to their goals<br>• explain any differences between their goals and results<br><br>Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results). |
| **Accrual basis of accounting** | A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred. |
| **Adverse auditor's opinion** | An auditor's opinion that financial statements are not presented fairly and are not reliable. |
| **Assurance** | An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgement and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive. |
| **Attest work, attest audit** | Work an auditor does to express an opinion on the reliability of financial statements. |
| **Audit** | An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices. |
| **Auditor** | A person who examines systems and financial information. |
| **Auditor's opinion** | An auditor's written opinion on whether things audited meet the criteria that apply to them. |
| **Auditor's report** | An auditor's written communication on the results of an audit. |
| **Business cases** | An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyses the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that departments can refer to in establishing business case policy. |
| **Capital asset** | A long-term asset. |
| **COBIT** | Abbreviation for "Control Objectives for Information and Related Technology." COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs and performance measurement requirements. |
| **Criteria** | Reasonable and attainable standards of performance that auditors use to assess systems. |
| **Cross-ministry** | The section of this report covering systems and problems that affect several ministries or the whole government. |
| **Crown** | The Government of Alberta. |
| **Deferred contributions** | See "Restricted contributions." |

## Glossary

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| **Deferred maintenance** | Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives. |
| **ERP** | Abbreviation for Enterprise Resource Planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. A typical ERP has multiple modules within a computer software application, standardized hardware, and a centralized database used by all modules to achieve this integration. Although an ERP can be as small as an accounting and payroll application, the term ERP is usually associated with larger systems that perform many functions within an organization. Examples of modules in an ERP, which formerly would have been stand-alone applications, include: Financials (General Ledger, Accounts Payable, and Accounts Receivable), Payroll, Human Resources, Purchasing and Supply Chain, Project Management, Asset Management, Student Administration Systems and Decision Support Systems. Some of the more common ERPs are PeopleSoft, SAP, Great Plains, and Oracle Applications. |
| **Exception** | Something that does not meet the criteria it should meet—see "Auditor's opinion." |
| **Expense** | The cost of a thing over a specific time. |
| **IFRS** | International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011. |
| **GAAP** | Abbreviation for "generally accepted accounting principles," which are established by the Canadian Institute of Chartered Accountants. |
| **Governance** | A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources. |
| **Internal audit** | A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations. |
| **Internal control** | A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:<br>• they understand the effectiveness and efficiency of operations<br>• internal and external reporting is reliable<br>• the organization is complying with laws, regulations and internal policies |
| **Management letter** | Our letter to the management of an entity that we have audited. In the letter, we explain:<br>1. our work<br>2. our findings<br>3. our recommendation of what the entity should improve<br>4. the risks if the entity does not implement the recommendation<br><br>We also ask the entity to explain specifically how and when it will implement the recommendation. |
| **Material, materiality** | Something important to decision-makers. |
| **Misstatement** | A misrepresentation of financial information due to mistake, fraud, or other irregularities. |
| **Outcomes** | The results an organization tries to achieve based on its goals. |
| **Outputs** | The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many." |

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| **Performance measure** | Indicator of progress in achieving a goal. |
| **Performance reporting** | Reporting on financial and non-financial performance compared to plans. |
| **Performance target** | The expected result for a performance measure. |
| **Qualified auditor's opinion** | An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification. |
| **Recommendation** | A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans. |
| **Restricted contributions** | Restricted contributions are monetary receipts or gifts-in-kind provided with stipulations specified by the donor or grantor on how those resources are to be used by the recipient organization. Generally accepted accounting principles for not-for-profit organizations require externally restricted contributions to be accounted for by including the value of contributions in revenue only after the stipulations are met. This results in "deferred contributions" on the balance sheet. These deferred contributions represent the value of contributions received but for which the stipulations have not yet been met by the recipient organization. Alternatively, generally accepted accounting principles allow restricted contributions to be recognized in revenue when received if they are separately classified by the nature of their restrictions on the face of the financial statements. These two accounting methods, known as the deferral method and restricted fund method, are thought to provide useful information to readers of the financial statements about how management has used resources provided to them and whether or not they have complied with stipulations imposed by donors. |
| **Review** | Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of enquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria. |
| **Risk** | Anything that impairs an organization's ability to achieve its goals. |
| **Risk management** | Identifying and then minimizing or eliminating risk and its effects. |
| **Sample** | A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgemental selection of sample items, and we base our sample size, sample selection, and evaluation of sample results, on our judgement of risk, the nature of the items in the population, and the specific audit objectives for which sampling is being used. |
| **Standards for systems audits** | Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Canadian Institute of Chartered Accountants. |
| **Systems (management)** | A set of interrelated management control processes designed to achieve goals economically and efficiently. |
| **Systems (accounting)** | A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities. |

## Glossary

**Systems audit**

To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants.

First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation.

A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

**Unqualified auditor's opinion**

An auditor's opinion that information audited meet the criteria that apply to them.

**Unqualified review engagement report**

Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

**Value for money**

The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

### Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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